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SCHEDULE 14A
(RULE 14a)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934
(AMENDMENT NO.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to sec.240.14a-11(c) or sec.240.14a-12

THE PROGRESSIVE CORPORATION
(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

X X X X X X X X X X
(NAME OF PERSON(S) FILING PROXY STATEMENT, IF OTHER THAN THE REGISTRANT)

Payment of Filing Fee (Check the appropriate box):
[X] No fee required.
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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PROGRESSIVE LOGO

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 24, 1998

Notice is hereby given that the Annual Meeting of Shareholders of The Progressive Corporation will be held at 6671 Beta Drive, Mayfield Village, Ohio, on Friday, April 24, 1998, at 10:00 a.m., Cleveland time, for the following purposes:

1. To elect three directors, each to serve for a term of three years;

2. To approve an amendment to the Company's Amended Articles of Incorporation to increase the number of authorized Common Shares, $1.00 par value, from 200,000,000 to 300,000,000;

3. To approve The Progressive Corporation 1998 Directors' Stock Option Plan; and

4. To transact such other business as may properly come before the meeting.

Only shareholders of record at the close of business on February 27, 1998, will be entitled to notice of and to vote at said meeting or any adjournment thereof.

By Order of the Board of Directors.

DAVID M. SCHNEIDER, Secretary

March 17, 1998

SHAREHOLDERS WHO DO NOT EXPECT TO ATTEND THE MEETING IN PERSON ARE URGED TO DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

THE PROGRESSIVE CORPORATION

PROXY STATEMENT

This statement is furnished in connection with the solicitation of proxies for use at the Annual Meeting of Shareholders of The Progressive Corporation, an Ohio corporation ("Company"), to be held at 10:00 a.m., Cleveland time, on Friday, April 24, 1998, at 6671 Beta Drive, Mayfield Village, Ohio 44143, and at any adjournment thereof. This statement and the accompanying proxy, together with the Company's Annual Report to Shareholders for the fiscal year ended December 31, 1997, will first be sent to shareholders on or about March 23, 1998.

The close of business on February 27, 1998, has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the meeting. At that date, the Company had outstanding 72,427,300 Common Shares, each of which will be entitled to one vote.

ITEM 1: ELECTION OF DIRECTORS

The Company's Code of Regulations provides that the number of directors be fixed by the shareholders at no less than five or more than twelve. The number of directors has been fixed at ten. The Code of Regulations provides that the directors are to be divided into three classes as nearly equal in number as possible and that the classes are to be elected for staggered terms of three years each. Directors of one class are elected annually. At the meeting, the shares represented by the proxies obtained hereby, unless otherwise specified, will be voted for the election as directors of the three nominees hereinafter named, each to serve for a three-year term and until his respective successor is duly elected and qualified. One vacancy will remain on the Board. If, by reason of death or other unexpected occurrence, any one or more of the nominees hereinafter named should not be available for election, the proxies will be voted for such substitute nominee(s), if any, as the Board of Directors may propose.

The reason for fixing the number of directors at a higher number than the number to be in office immediately after the Annual Meeting is to have a vacancy available which could be filled by the directors without the time and expense involved in holding a special meeting of shareholders, should a person who could make a valuable contribution as a director of the Company become available during the year. Vacancies in the Board may be filled for the remainder of the unexpired term of the class of directors to which the new director is assigned.

Assignments will be made so that the directors are distributed among the several classes as nearly equally as possible. No decision has been made to fill the vacancy, nor have any candidates been considered and approved by the Board of Directors. Proxies cannot be voted at the Annual Meeting for a greater number of persons than the three nominees named in this proxy statement. No shareholder nominations for the election of directors have been received within the time period required by Section 13 of Article II of the Code of Regulations.

If notice in writing is given by any shareholder to the President or Secretary not less than 48 hours before the time fixed for holding the meeting that he desires that the voting for election of directors shall be cumulative, and if an announcement of the giving of such notice is made upon the convening of such meeting by the Chairman or Secretary or by or on behalf of the shareholder giving such notice, each shareholder shall have the right to cumulate such voting power as he possesses at such election and to give one nominee a number of votes equal to the number of directors to be elected multiplied by the number of shares he holds, or to distribute such number of votes among two or more nominees, as he sees fit. If the enclosed proxy is executed and returned and voting for the election of directors is cumulative, the persons named in the enclosed proxy will have the authority to cumulate votes and to vote the shares represented by such proxy, and by other proxies held by them, so as to elect as many of the three nominees named below as possible.

The following information is set forth with respect to each person nominated for election as a director and for those directors whose terms will continue after the Annual Meeting. Unless otherwise indicated, each such nominee and director has held the principal occupation indicated for more than the last five years. Each such nominee is currently a director of the Company.

NOMINEES FOR ELECTION AT THE ANNUAL MEETING

NAME	AGE	PRINCIPAL OCCUPATION AND LAST FIVE YEARS' BUSINESS EXPERIENCE	DIRECTOR SINCE	TERM EXPIRES
B. Charles Ames (1)	72	Principal, Clayton, Dubilier & Rice, Inc., New York, New York (investment banking)	1983	2001
Peter B. Lewis (2)	64	President and Chief Executive Officer of the Company; Chairman of the Board of the Company since April 1993; President, Chairman of the Board and Chief Executive Officer of Progressive Casualty Insurance Company	1965	2001
Donald B. Shackelford (3)	65	Chairman of the Board, State Savings Bank, Columbus, Ohio (savings bank)	1976	2001

DIRECTORS WHOSE TERMS WILL CONTINUE AFTER THE ANNUAL MEETING

NAME	AGE	PRINCIPAL OCCUPATION AND LAST FIVE YEARS' BUSINESS EXPERIENCE	DIRECTOR SINCE	TERM EXPIRES
Milton N. Allen (4)	70	Director of various companies	1978	1999
Charles A. Davis (5)	49	Limited Partner, Goldman Sachs Group L.P., New York, New York (investment banking) since December 1994; General Partner, Goldman Sachs & Co., prior to December 1994	1996	1999

Paul B. Sigler	64	Professor, Yale University and Investigator in the Howard Hughes Medical Institute	1981	1999
Stephen R. Hardis (6)	62	Chairman of the Board of Eaton Corporation, Cleveland, Ohio (manufacturing) since January 1996; Vice Chairman of Eaton Corporation prior to January 1996; Chief Executive Officer of Eaton Corporation since September 1995; Chief Financial and Administrative Officer of Eaton Corporation prior to September 1995	1988	2000
Janet Hill (7)	50	President, Staubach Alexander Hill, LLC, Washington, D.C. (commercial real estate consulting) since January 1995 and Vice President, Alexander & Associates, Inc., Washington, D.C. (management consulting)	1995	2000
Norman S. Matthews (8)	65	Consultant, New York, New York	1981	2000

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(1) Mr. Ames is also a director of M.A. Hanna Company, Riverwood Holding, Inc. and Lexmark Holding, Inc., which are publicly held, and WESCO Distribution, Inc. and CDW Holding, Inc., which are privately held.

(2) Mr. Peter B. Lewis is also an officer and director of other subsidiaries of the Company. Mr. Daniel R. Lewis, an executive officer of the Company, is the brother of Mr. Peter Lewis.

(3) Mr. Shackelford is also a director of The Limited, Inc., Worthington Foods, Inc., Abercrombie & Fitch Co. and Intimate Brands, Inc., which are publicly held.

(4) Mr. Allen is also a director of Actron Manufacturing Company and The Bradford Group, Inc., which are privately held.

(5) Mr. Davis is also a director of Heilig-Meyers Company, Lechters, Inc. and Media General, Inc., which are publicly held, and Merchants Bancshares, Inc., which is privately held.

(6) Mr. Hardis is also a director of Nordson Corporation, Lexmark Holding, Inc. and KeyCorp, all of which, as well as Eaton Corporation, are publicly held.

(7) Ms. Hill is also a director of Wendy's International, Inc. and Deans Foods Company, which are publicly held, and the First Union Bank of Virginia, Maryland and the District of Columbia, a wholly owned subsidiary of the First Union Corporation, which is publicly held.

(8) Mr. Matthews is also a director of Lechters, Inc., Toys "R" Us, Loehmann's, Inc. and Finlay Fine Jewelry, Inc., which are publicly held.

Five meetings of the Board of Directors were held during 1997, and the Board adopted resolutions by written action pursuant to Ohio corporation law on one occasion.

The Board has named an Executive Committee, an Audit Committee and an Executive Compensation Committee, as described below. The Board has not designated a nominating committee.

Messrs. Allen, Hardis and Lewis are the current members of the Board's Executive Committee, which exercises all powers of the Board between Board meetings, except the power to fill vacancies on the Board or its committees. During 1997, the Executive Committee adopted resolutions by written action pursuant to Ohio corporation law on eight occasions.

Messrs. Allen, Ames, Davis and Hardis are the current members of the Board's Audit Committee, which assures that organization, policies, controls and

systems are in place to monitor performance; provides an independent channel to receive appropriate communications from employees, auditors, legal counsel, bankers and consultants; and monitors the public release of financial information. The Audit Committee met six times during 1997.

Ms. Hill and Messrs. Matthews, Shackelford and Sigler are the current members of the Board's Executive Compensation Committee. This committee monitors and directs the administration of the Company's executive compensation program, including the various cash and stock incentive programs in which officers and employees of the Company participate. If the proposal set forth in Item 3 is approved by shareholders, this Committee will determine the awards under the 1998 Directors' Stock Option Plan. During 1997, the Executive Compensation Committee met five times and adopted resolutions by written action pursuant to Ohio corporation law on one occasion.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Charles A. Davis is a limited partner of the Goldman Sachs Group, L.P. ("GSG"). GSG is the 99% general partner of Goldman, Sachs & Co. ("GS"). GS is an investment banking firm that regularly performs services such as acting as a financial advisor and serving as principal or

agent in the purchase and sale of securities. GS has performed such services for the Company and may be called upon to provide similar or other services for the Company in the future.

Mr. Davis owns, indirectly through an intermediary corporation, a 12% equity interest in Visual Radio, Inc., a privately held company that provides consulting, technology and training to companies that use the Internet. The Company is engaged in discussions that will likely result in the Company purchasing such services from Visual Radio during 1998. The Company expects that total expenditures for these services will be approximately $150,000 in 1998.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Ms. Hill and Messrs. Matthews, Shackelford and Sigler are the members of the Company's Executive Compensation Committee. There are no Compensation Committee interlocks.

SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners. The following information is set forth with respect to persons known to management to be the beneficial owners, as of January 31, 1998, of more than 5% of the Company's Common Shares:

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1)	PERCENT OF CLASS
Peter B. Lewis 6300 Wilson Mills Road Mayfield Village, Ohio 44143	10,199,713(2)	14.0%
Ruane, Cunniff & Co., Inc 767 Fifth Avenue Suite 4701 New York, New York 10153-4798	9,602,603(3)	13.3%

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(1) Except as otherwise indicated, the persons listed as beneficial owners of the Common Shares have sole voting and investment power with respect to

those shares. Certain of the information contained in this table, including related footnotes, is based on the Schedule 13G filings made by the beneficial owners identified herein.

(2) Includes 14,274 Common Shares held for Mr. Lewis by a trustee under the Company's Retirement Security Program, 354,500 Common Shares subject to currently exercisable stock options, 1,858,757 Common Shares held by Mr. Lewis as trustee of two trusts established for the benefit of his brother, 532,354 shares held by a charitable corporation of which Mr. Lewis serves as a trustee and an officer, and 298,000 Common Shares held by two limited partnerships in each of which Mr. Lewis is a general partner. The amount does not include 934,440 Common Shares held of record by National City Bank as trustee of a trust established by Mr. Lewis for the benefit of his adult children, as to which shares he disclaims any beneficial interest.

(3) The Common Shares are held in investment accounts maintained with Ruane, Cunniff & Co., Inc. as of December 31, 1997, and it disclaims any beneficial interest in such shares. Ruane, Cunniff & Co., Inc. has advised that it has sole voting power as to 6,440,392 of these shares, no voting power as to the balance of these shares, sole investment power as to 5,202,603 of these shares and shared investment power as to 4,400,000 of these shares.

Security Ownership of Management. The following information is set forth with respect to the Company's Common Shares beneficially owned as of January 31, 1998, by all directors and nominees for election as directors of the Company, each of the named executive officers and by all directors and executive officers of the Company as a group:

NAME	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1)	PERCENT OF CLASS
Milton N. Allen	47,254(2)	*
B. Charles Ames	53,005(3)	*
Alan R. Bauer	103,372(4)	*
Charles B. Chokel	119,874(5)	*
Charles A. Davis	2,000(6)	*
W. Thomas Forrester	31,154(7)	*
William H. Graves	90,191(8)	*
Stephen R. Hardis	33,808(3)	*
Janet Hill	6,500(9)	*
Peter B. Lewis	10,199,713(10)	14.0%
Norman S. Matthews	38,201(11)	*
Robert J. McMillan	111,824(12)	*
Glenn M. Renwick	49,625(13)	*
Donald B. Shackelford	96,002(14)	*
Paul B. Sigler	11,606(15)	*
All 21 Executive Officers and Directors as a Group	11,691,687(16)	15.9%

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* Less than 1% of the outstanding Common Shares of the Company.

(1) Includes Common Shares held for executive officers under The Progressive Retirement Security Program and currently exercisable stock options held by directors and executive officers under various incentive plans maintained by the Company. Unless otherwise indicated below, beneficial ownership of the Common Shares reported in the table is comprised of both sole voting power and sole investment power, or voting power and investment power that is shared with the spouse and/or minor children of the director or executive officer.

(2) Includes 2,400 Common Shares owned by Mr. Allen's wife, as to which shares he disclaims any beneficial interest, and

28,000 Common Shares subject to currently exercisable stock options.

(3) Includes 28,000 Common Shares subject to currently exercisable stock options.

(4) Includes 72,700 Common Shares subject to currently exercisable stock options and 853 Common Shares held under The Progressive Corporation Executive Deferred Compensation Plan, as to which shares Mr. Bauer has sole investment power but no voting power.
(5) Includes 19,974 Common Shares owned by Mr. Chokel's wife, as to which shares he disclaims any beneficial interest, 28,000 Common Shares subject to currently exercisable stock options and 19,172 Common Shares held by Mr. Chokel as trustee of a family trust.
(6) Consists of 2,000 Common Shares subject to currently exercisable stock options.
(7) Includes 10,100 Common Shares subject to currently exercisable stock options.
(8) Includes 56,900 Common Shares subject to currently exercisable stock options.
(9) Includes 6,000 Common Shares subject to currently exercisable stock options.
(10) See footnote 2 on page 6.
(11) Includes 22,000 Common Shares subject to currently exercisable stock options.
(12) Includes 57,000 Common Shares subject to currently exercisable stock options.
(13) Includes 25,100 Common Shares subject to currently exercisable stock options and 1,911 Common Shares held under The Progressive Corporation Executive Deferred Compensation Plan, as to which shares Mr. Renwick has sole investment but no voting power.
(14) Includes 28,000 Common Shares subject to currently exercisable stock options and 6,831 Common Shares held by Mr. Shackelford as trustee of a trust established for the benefit of his daughter.
(15) Includes 10,000 Common Shares subject to currently exercisable stock options.
(16) Includes 1,052,500 Common Shares subject to currently exercisable stock options.

Section 16(a) Beneficial Ownership Reporting Compliance. Due to a typographical error in Milton N. Allen's April 1997 Form 4, a sale of 155 shares by Mr. Allen, as trustee of a charitable remainder trust, was incorrectly reported as being the sale of 115 shares. An amended Form 4 was filed as soon as this error was discovered. The November 1, 1996 sale of 200 shares by a trust of which Daniel R. Lewis' wife is the beneficiary was reported in a Form 4 filed in February 1998. A Form 4 reporting the January 31, 1997 sale of 10,000 shares by Peter B. Lewis, as trustee of the D. R. Lewis Flint Trust, was filed 17 days late.

EXECUTIVE COMPENSATION

The following information is set forth with respect to the Company's Chief Executive Officer and the other six most highly compensated executive officers, each of whom was serving as an executive officer at December 31, 1997 (the "named executive officers").

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS	
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS(1) ($)	OTHER ANNUAL COMPENSATION ($)	SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION(3) ($)
Peter B. Lewis	1997	$830,769	$1,949,234	$141,976(2)	73,600	$ 7,770
Chairman, President and	1996	800,000	1,320,840	151,234(2)	108,200	7,635
Chief Executive Officer	1995	800,000	772,800	147,197(2)	93,200	294,018
Charles B. Chokel	1997	383,654	833,967	--	28,200	16,378(4)
Treasurer and Chief	1996	321,889	496,844	--	36,000	15,949
Financial Officer	1995	298,310	285,880	--	26,000	123,162
William H. Graves	1997	325,385	581,161	--	15,800	15,612(5)
Claims Process	1996	294,231	414,159	--	22,100	5,631
Leader	1995	249,444	134,601	--	13,100	79,786
Glenn M. Renwick	1997	325,385	581,161	--	15,800	15,462(6)
Technology	1996	295,207	396,151	--	22,100	12,818

Process Leader	1995	258,458	181,422	--	13,100	80,613
Alan R. Bauer	1997	325,385	565,519	--	15,800	35,136(7)
International/	1996	294,231	384,736	--	22,100	7,008
Internet Officer	1995	249,632	202,202	--	13,100	6,663
W. Thomas Forrester	1997	325,385	565,519	--	15,800	5,545
Ownership	1996	294,240	394,558	--	22,100	13,243
Process Leader	1995	250,080	199,815	--	13,100	11,338
Robert J. McMillan	1997	325,385	565,519	--	15,800	32,966(8)
Consumer Marketing	1996	298,149	389,860	--	22,100	7,008
Process Leader	1995	283,962	105,082	--	13,100	12,627

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(1) Includes bonus amounts, if any, deferred under The Progressive Corporation Executive Deferred Compensation Plan.

(2) Other Annual Compensation includes $108,124, $117,001 and $121,264, in the form of personal use of corporate aircraft in 1997, 1996 and 1995, respectively.

(3) Except as otherwise disclosed, amounts represent employer contributions made during 1997 under the Company's Retirement Security Program.

(4) In addition to contributions made under the Company's Retirement Security program, amount also includes a $9,750 single lump sum payment in lieu of salary increase for exceeding specific performance objectives during 1996.

(5) In addition to contributions made under the Company's Retirement Security program, amount also includes a $9,000 single lump sum payment in lieu of salary increase for exceeding specific performance objectives during 1996 and $311 as an anniversary award for 15 years of employment with the Company.

(6) In addition to contributions made under the Company's Retirement Security Program, amount also includes $9,000 single lump sum payment in lieu of salary increase for exceeding specific performance objectives during 1996.

(7) In addition to contributions made under the Company's Retirement Security Program, amount also includes a $28,020 relocation bonus.

(8) In addition to contributions made under the Company's Retirement Security Program, amount also includes a $26,250 relocation bonus.

OPTION GRANTS IN LAST FISCAL YEAR

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1) (#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1997	EXERCISE PRICE ($/SHARE)	EXPIRATION DATE	5% ($)	10% ($)
Peter B. Lewis	73,600	10.1%	$68.375	12/31/06	$2,774,504	$6,833,736
Charles B. Chokel	28,200	3.9	68.375	12/31/06	1,063,057	2,618,361
William H. Graves	15,800	2.2	68.375	12/31/06	595,614	1,467,025
Glenn M. Renwick	15,800	2.2	68.375	12/31/06	595,614	1,467,025
Alan R. Bauer	15,800	2.2	68.375	12/31/06	595,614	1,467,025
W. Thomas Forrester	15,800	2.2	68.375	12/31/06	595,614	1,467,025
Robert J. McMillan	15,800	2.2	68.375	12/31/06	595,614	1,467,025

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(1) Options become exercisable January 1, 2002, subject to accelerated

vesting and a "cash-out" provision upon the occurrence of any "change in control" of the Company or certain similar events described in both the 1989 Incentive Plan and the 1995 Incentive Plan.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT 12/31/97 (#) EXERCISABLE/ UNEXERCISABLE		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT 12/31/97 ($) EXERCISABLE/ UNEXERCISABLE	
Peter B. Lewis	--	--	Exercisable	287,400	Exercisable	$30,090,745
			Unexercisable	464,500	Unexercisable	36,213,250
Charles B. Chokel	36,684	$2,930,855	Exercisable	16,500	Exercisable	1,722,880
			Unexercisable	133,400	Unexercisable	10,050,762
William H. Graves	--	--	Exercisable	52,200	Exercisable	5,455,955
			Unexercisable	77,800	Unexercisable	5,886,461
Glenn M. Renwick	36,000	2,286,024	Exercisable	15,000	Exercisable	1,566,255
			Unexercisable	78,600	Unexercisable	5,958,111
Alan R. Bauer	--	--	Exercisable	63,000	Exercisable	6,583,287
			Unexercisable	78,000	Unexercisable	5,904,236
W. Thomas Forrester	46,200	3,646,595	Exercisable	--	Exercisable	--
			Unexercisable	78,600	Unexercisable	5,958,111
Robert J. McMillan	30,000	2,384,908	Exercisable	46,500	Exercisable	4,819,150
			Unexercisable	84,000	Unexercisable	6,271,711

PENSION PLANS

Each of the named executive officers, as well as substantially all other full-time employees of the Company and its subsidiaries who were hired before January 1, 1989 and satisfy certain other requirements, are eligible to participate in The Progressive Pension Plan ("Pension Plan"). The Pension Plan is a defined benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), is a qualified plan under Section 401(a) of the Internal Revenue Code of 1986, as amended ("Code") and is subject to the minimum funding standards of Section 412 of the Code.

Benefits payable under the Pension Plan are determined pursuant to a formula based upon a participant's years of service with the Company and its subsidiaries, the participant's average annual compensation not in excess of the Social Security taxable wage base during such years of service ("Average Earnings") and Social Security benefits. For purposes of determining Average Earnings, the Pension Plan recognizes base salary, overtime earnings, cash bonuses and commissions. The benefit formula is: 2% of Average Earnings times years of service minus 50% of primary Social Security benefit for years of service through December 31, 1988, plus 1.3% of Average Earnings times years of service through December 31, 1993.

Participants accrue benefits under the Pension Plan formula over their years of service with the Company and its subsidiaries, and become fully vested in their accrued benefits under the Pension Plan upon (i) completion of five years of service (subject to certain break-in-service rules); (ii) attainment of age 65; or (iii) retirement on account of permanent and total disability.

The estimated net annual pensions (expressed as a life and 120-month

certain annuity) payable upon retirement at normal retirement age (65) under the Pension Plan for each of the seven named executive officers are as follows: Mr. Lewis, $10,188; Mr. Chokel, $9,042; Mr. Graves, $8,020; Mr. Renwick, $5,412; Mr. Bauer, $8,905; Mr. Forrester, $6,263; and Mr. McMillan, $9,220.

As of December 31, 1993, all benefit accruals under the Pension Plan were frozen. The Company now has a two-tiered Retirement Security Program ("RSP"). The RSP is a defined contribution pension plan with the meaning of ERISA and a qualified plan under the Code and covers all employees who meet requirements as to age and length of service. The first tier of the RSP provides employer contributions of 1% to 5% of annual eligible compensation up to the Social Security wage base, based on years of eligible service. The second tier is a long-term savings plan under which the Company matches, into a company stock account, amounts contributed to the Plan by each employee up to a maximum of 3% of the employee's eligible compensation. All named executive officers are eligible to participate in the RSP, and contributions made by the Company in 1995 are included in "All Other Compensation" in the Summary Compensation Table on page 9.

SEPARATION PLANS

The named executive officers, as well as substantially all other regular, non-temporary employees of the Company and its subsidiaries, are eligible to participate in The Progressive Corporation Separation Allowance Plan ("Separation Plan"). The Separation Plan provides payments to eligible employees whose employment is involuntarily terminated as a result of a reduction in force or a reorganization, as defined in the Separation Plan. Payments are based on compensation in effect immediately prior to termination and years of service and cannot exceed an aggregate of two years of compensation. The Separation Plan is a welfare benefit plan within the meaning of ERISA. All payments under the Separation Plan are made from the general assets of the Company and its subsidiaries. Individual employment or separation arrangements may supplement or supersede the Separation Plan in whole or in part.

DIRECTORS' FEES AND PLANS

Each member of the Board of Directors who is not an employee of the Company currently receives an annual director's fee of $8,000 ("Retainer Fee"). In addition, each such director receives fees for attendance at meetings of the Board and those committees of the Board of which he is a member ("Meeting Fee"). Directors currently receive $3,000 for attendance at each regular meeting of the Board and $1,000 for attendance at each special meeting, unless attendance is by telephone, in which case the fee is $500. Each member of a Board committee receives $750 for attendance at each meeting of the committee, except that the committee chairman receives $1,000 for attendance at each such meeting, unless attendance is by telephone, in which case the fee is $500. Directors are also compensated for attendance at certain meetings of the Company's senior managers, which are typically attended by one or two directors, at rates equal to the fee received for attendance at regular Board meetings.

Each director of the Company who is not an employee of the Company participates in The Progressive Corporation Directors Deferral Plan, as amended ("Directors Deferral Plan"). Each participant in the Directors Deferral Plan may elect, annually, to defer receipt of all or a portion of his Meeting Fees for the following year until the date designated by the director in accordance with the plan. A participating director may elect to have such deferred fees credited to or allocated between (a) a cash account which will earn interest at a rate equal to the rate of interest on new 3-month certificates of deposit, and (b) a stock account under which the deferred fees are converted into units equivalent in value and dividend rights to the Company's Common Shares. Account balances may not be transferred from one account to another. All such accounts will be distributed in cash, in a lump sum or installments, when and as designated by the participating director at the time of election or, if earlier, upon the death of the director. All director's Retainer Fees are deferred, credited to a stock account and distributed in cash on a date designated by the participating director in accordance with the terms of the plan. All account balances of a director will be distributed to his beneficiary, if he dies. However, if any director ceases to serve as such for any reason other than death, disability or removal without

cause prior to the expiration of his current term, all Retainer Fees credited to his stock account during such term are forfeited.

Each director who is not an employee of the Company is eligible to receive awards under The Progressive Corporation 1990 Directors' Stock Option Plan, as amended ("Directors' Stock Plan"). The Directors' Stock Plan authorizes the issuance of up to 450,000 Common Shares, subject to adjustment for stock splits and similar events. Promptly after each Annual Meeting of Shareholders, each participating director receives an option to purchase 2,000 Common Shares with an exercise price equal to the fair market value of the Common Shares on the date of such Annual Meeting. The term of each such stock option is ten years commencing on the date of grant. Options become exercisable six months and one day following the date of grant and are not transferable. Upon death, to the extent then exercisable, a stock option may be exercised for a period of one year. During 1997, the Company granted stock options under this plan covering an aggregate of 16,000 shares to eight directors. The Directors' Stock Plan will be replaced by The Progressive Corporation 1998 Directors' Stock Option Plan if the proposal set forth in Item 3 is approved by shareholders.

EXECUTIVE COMPENSATION COMMITTEE REPORT

EXECUTIVE COMPENSATION POLICY

The Company's executive compensation program is administered under the direction of the Executive Compensation Committee of the Board of Directors ("Committee"). The Committee is comprised of four independent, nonemployee directors. The executive compensation program is designed to promote the following objectives:

- Attract, retain and motivate executives who can significantly contribute to the success of the Company.

- Reward the achievement of business objectives that have been approved by the Board.

- Provide a rational, consistent and competitive executive compensation system that is well understood by those to whom it applies.

- Tie a significant portion of executive compensation to the long-term performance of the Company's Common Shares.

The Committee believes that if these objectives are consistently achieved, shareholder value will be enhanced over time.

EXECUTIVE COMPENSATION PROGRAM

For 1997, the Company's executive compensation program was designed to base compensation on corporate, business unit and individual performance. Performance objectives and related measurements, as well as the compensation awards that would result from various levels of performance, were clearly defined in advance.

The executive compensation program consists of three components: salary, annual bonus and long-term incentives through equity-based awards. Variable compensation (consisting of annual bonus and equity-based awards) is a larger part of total compensation at more senior levels in the organization. For each executive officer, a target amount is established for each component of variable compensation. Target amounts are determined primarily by reference to data contained in national compensation surveys. These surveys include compensation data for a broad range of public companies in a variety of industries. Since the Company competes for executive level personnel on a nationwide basis with companies in a variety of industries, the compensation data utilized are not limited to companies included in the P/C Group referred to on page 21. The Company's objective is to pay its executives competitive salaries (i.e., at or near the midpoint of the survey range of salaries for their respective positions) and to provide variable compensation that can take total direct compensation to or above the high end of the survey range for total direct compensation when the Company and, if applicable, the executive's assigned business unit meet or exceed challenging performance goals.

In addition to the executive compensation program, executive officers participate in the Company's health and retirement plans which are available on the same basis to all regular employees of the Company who satisfy minimum eligibility requirements.

Salary Component

Executive officers receive a salary based on their responsibilities and potential at market levels indicated by compensation survey data. The Company's objective is to set executive salaries at or near the midpoint of the survey range of salaries for similar positions at other companies judged to be comparable. Salaries are reviewed annually and adjusted upward or downward for changes in those factors and the individual's performance. Better performance generally results in an increased salary, subject to the limits of the salary range established by the Company. For executives who exceed expectations, some part of the increase will be paid in a single lump sum, as a merit cash award, rather than becoming a part of the future salary base.

Annual Bonus Component

In 1997, Messrs. Lewis and Chokel participated in the 1997 Executive Bonus Plan. Messrs. Graves, Renwick, Bauer, Forrester and McMillan, along with all other full-time employees of the Company, participated in the 1997 Gainsharing Plan. These Plans have been designed to reward participants appropriately for current corporate and/or business unit performance.

Under the 1997 Executive Bonus Plan, a target annual bonus amount, which varied by position, was established for each participant. In 1997, Mr. Lewis's target annual bonus amount equaled 135% of salary; for Mr. Chokel, the target was 125% of salary.

Awards under the 1997 Executive Bonus Plan were determined by reference to two quantitative components: a Core Business Gainsharing Component and an Investment Component.

The Core Business Gainsharing Component was based on a performance matrix ("Gainsharing Matrix") which assigned a performance score to various combinations of profitability and growth outcomes for the Company's personal and commercial automobile insurance business ("Core Business"). Under the Gainsharing Matrix, profitability was measured by comparing the combined ratio ("CR") achieved by the Core Business, determined in accordance with generally accepted accounting principles ("GAAP"), against a target combined ratio, while growth was measured in terms of the year-to-year change in net written premiums for the Core Business. The Investment Component compared the performance of individual segments of the Company's investment portfolio against the range of performance results achieved by a pre-selected group of comparable investment funds.

The weighting of the two components differed for the participating executives, depending on the nature and scope of their assigned responsibilities. A bonus award equal to the target annual bonus resulted if designated goals were met. Actual awards could range from 0% to 200%

of the target annual bonus amount, depending on the extent to which performance fell short of or exceeded the designated goals.

All other officers and qualified employees (approximately 13,400) of the Company, including Messrs. Graves, Renwick, Bauer, Forrester and McMillan, participated in the Company's 1997 Gainsharing Plan. The 1997 Gainsharing Plan is substantially similar to the 1997 Executive Bonus Plan, but does not include an Investment Component. Under the 1997 Gainsharing Plan, awards were based on performance in achieving profitability and growth targets, as measured by the Gainsharing Matrix, for both the Core Business and the individual participant's business unit or product. In 1997, the participating executive officers were assigned target annual bonus amounts ranging from 60-100% of salary.

Long-Term Incentive Component

In 1997, the executive compensation program included long-term incentives through the granting of nonqualified stock options. This component is designed to encourage the long-term retention of key executives and to align executive compensation directly with the long-term enhancement of shareholder value. Stock option grants are intended to focus the executive on managing the Company from the perspective of an owner. The named executive officers and approximately 350 other management employees of the Company currently participate in the long-term incentive program.

The stock options have an exercise price which is equal to the market price of the Company's Common Shares on the date of grant, contain provisions which defer vesting of the options for five years and may be exercised at any time during the five years following vesting. The value of a stock option depends directly on the future performance of the Company's Common Shares, since it has value to the recipient only if and to the extent that the price of the Company's Common Shares increases above the option exercise price.

Stock option awards are normally made annually. A target award value, which varies by position, is established for each executive officer in order to bring total targeted compensation to the top of the survey range. In 1997, for the Company's executive officers, these target award values ranged from 75-275% of salary, depending on job classification. The target award value is then divided by a value per share developed through a modified Black-Scholes pricing model, to determine the number of option shares to be awarded. In 1997, the pricing model valued the stock options awarded to executive officers at $29.892 per share, which is 43.72% of the per share exercise price of $68.375. The following assumptions were used to derive the ratio: 10-year option term, .2538 annualized volatility rate, 6.35% risk free rate of return and .36% dividend yield, and an assumed annual attrition factor of 3.0% for each of the five years prior to vesting.

CHIEF EXECUTIVE OFFICER COMPENSATION

Peter B. Lewis, the Company's Chief Executive Officer, received cash compensation in the amount of $2,780,003 for 1997, consisting of a salary of $830,769 and an annual bonus award of $1,949,234, in addition to the non-cash compensation disclosed in the Summary Compensation Table and related footnotes on page 9. Mr. Lewis's salary has been reduced from a high of $1,198,077 in 1991, because the Committee desires to place more emphasis on the variable components of executive pay.

Mr. Lewis's annual bonus target for 1997 was $1,121,538, an amount equal to 135% of his salary. For Mr. Lewis, 80% of his bonus target was based on the Core Business Gainsharing Component and 20% was based on the Investment Component. For 1997, the Core Business Gainsharing Component was determined by a Gainsharing Matrix which measures profitability and growth in net written premiums for the Company's Core Business. In 1997, the Company's Core Business achieved a CR of 93.1, with 33% growth in net written premiums, resulting in a performance score of 1.738 for the Core Business Gainsharing Component. In addition, the Investment Component score was 1.740 compared to a target of 1.0. Applying the weighting factors to the performance scores for each of the components, and then combining the results, produced a Performance Factor of 1.738. Mr. Lewis therefore earned 173.8% of target, or $1,949,234, as his annual bonus.

For the long-term incentive component of his compensation, on March 12, 1997, Mr. Lewis was awarded stock options to purchase 73,600 of the Company's Common Shares at an exercise price of $68.375 per share. This award vests on January 1, 2002, and was determined in accordance with the stock option formula described above.

OMNIBUS BUDGET RECONCILIATION ACT OF 1993

In 1993, the Internal Revenue Code of 1986 was amended by the Omnibus Budget Reconciliation Act of 1993 ("Budget Reconciliation Act"), which limits to $1 million per year the deduction allowed for Federal income tax purposes for compensation paid to the chief executive officer and the four other most highly compensated executive officers of a public company ("Deduction Limit"). This Deduction Limit, which became effective in 1994, does not apply to compensation paid under a plan that meets certain requirements for "performance-based

compensation." To qualify for this exception, (a) the compensation must be payable solely on account of the attainment of one or more pre-established objective performance goals; (b) the performance goals must be established by a compensation committee of the board of directors that is comprised solely of two or more "outside directors;" (c) the material terms of the performance goals must be disclosed to and approved by shareholders before payment; and (d) the compensation committee must certify in writing prior to payment that the performance goals and any other material terms have been satisfied.

Compensation attributable to a stock option award is deemed to satisfy the requirements for "performance-based compensation" if the award is made by a compensation committee comprised solely of two or more "outside directors," the plan under which the award has been granted is approved by shareholders and states the maximum number of shares with respect to which options may be granted during a specified period to any employee and, under the terms of the option, the amount of compensation the employee could receive is based solely on an increase in the value of the stock after the date of the award. Generally, the Deduction Limit does not apply to any compensation payable under a written contract that was in effect on February 17, 1993, or pursuant to a plan or arrangement approved by shareholders prior to December 20, 1993, provided certain requirements are met.

It is the Company's policy to structure its incentive compensation programs to satisfy the requirements for the "performance-based compensation" exception to the Deduction Limit and, thus, to preserve the full deductibility of all compensation paid thereunder, to the extent practicable. The Company's stock incentive plans, as well as the 1997 Executive Bonus Plan, have been submitted to and approved by the Company's shareholders. Compensation awards under these Plans are designed to satisfy the requirements of the "performance based compensation" exception to the Deduction Limit. Salaries and any perquisites are subject to approval of the Committee, but will not be submitted to a vote of shareholders, and thus will not be deductible if and to the extent that such compensation exceeds $1 million per year for any such executive.

SUMMARY

The Committee believes that executive compensation should be linked to the creation of shareholder value. The Company's executive compensation program thus includes significant long-term incentives, through equity-based awards, which are tied to the long-term performance of the Company's Common Shares. The Committee recognizes, however, that while stock prices may reflect corporate performance over the long term, other factors, such as general economic conditions and varying investors' attitudes toward the stock market in general, and specific industries in particular, may significantly affect stock prices at any point in time. Accordingly, the annual cash components of the program, consisting of salary and annual bonus, emphasize individual performance and the realization of defined business objectives, which are independent of short-range fluctuations in the stock price.

The executive compensation program thus has been designed to align executive compensation with both the Company's business goals and long-term shareholder interests. The Committee believes that the program, as implemented, is balanced and consistent with these objectives. The Committee will continue to monitor the operation of the program and cause the program to be adjusted and refined, as necessary, to ensure that it continues to support both corporate and shareholder goals.

EXECUTIVE COMPENSATION COMMITTEE

Donald B. Shackelford, Chairman
Janet Hill
Norman S. Matthews
Paul B. Sigler

PERFORMANCE GRAPH

The following performance graph compares the performance of the Company's Common Shares ("PGR") to the Standard & Poor's 500 Index ("S & P Index") and the Value Line Property/Casualty Industry Group ("P/C Group") for the last five years.

CUMULATIVE FIVE-YEAR TOTAL RETURN*

PGR, S&P INDEX, P/C GROUP
(PERFORMANCE RESULTS THROUGH 12/31/97)

MEASUREMENT PERIOD (FISCAL YEAR COVERED)	PGR	S&P INDEX	P/C GROUP
1992	100	100	100
1993	140	110	102
1994	122	112	101
1995	171	154	142
1996	236	190	182
1997	422	253	280

*Assumes reinvestment of dividends.

Source: Value Line, Inc.

ITEM 2: APPROVAL OF AMENDMENT TO THE COMPANY'S AMENDED ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED COMMON SHARES FROM 200,000,000 TO 300,000,000

The Board of Directors is submitting to shareholders for approval an amendment to the Company's Amended Articles of Incorporation ("Amended Articles") to increase the number of Common Shares, $1.00 par value, which the Company is authorized to issue from 200,000,000 to 300,000,000 and recommends that the Company's shareholders approve the amendment.

The full text of the first paragraph of Article FOURTH of the Amended Articles reflecting this amendment is attached to this proxy statement as Exhibit A. The following description of the amendment is qualified in its entirety by reference to Exhibit A.

The additional Common Shares for which authorization is sought would have the same rights and privileges as the Common Shares currently outstanding. Holders of Common Shares have no preemptive rights to subscribe for or purchase any additional shares of the Company.

As of February 27, 1998, 72,427,300 Common Shares were outstanding and 10,293,849 additional shares were reserved for issuance under various stock option and other employee benefit plans maintained by the Company (although only 4,964,092 of such shares are currently subject to outstanding stock options or other awards). As of that date, a balance of 106,629,832 Common Shares remained authorized but unissued and not subject to reservation, and 10,649,019 shares were held in treasury.

Although the Company currently has no plan or commitment that would result in the sale or issuance of additional Common Shares (other than pursuant to employee benefit plans) the Board believes that the number of Common Shares currently available for issuance is insufficient to meet the future needs of the Company.

REASON FOR AND EFFECTS OF PROPOSED AMENDMENT

The Board believes that it is desirable to have additional authorized but unissued Common Shares available for possible future share dividends or splits, employee benefit programs, financing and acquisition transactions and other general corporate purposes. For example, the Company issued 38,453,952 Common Shares pursuant to a 3-for-1 stock split effected in the form of a share dividend in December 1992 and sold 4,950,000 Common Shares to the public in July

1993. The Company also issued 9,000,000 shares in December 1992 upon the conversion of its $75,000,000 Floating Rate Convertible Subordinated Debentures due 2008. While there can be no assurance that additional share distributions or sales of Company securities will be made in the future, the Board wishes to have sufficient Common Shares available for such purposes if conditions warrant such distributions or sales. Such authorized but unissued Common Shares would be available for issuance without further action by the shareholders, unless such action is required by applicable law or the rules of any stock exchange on which the Company's securities

may be listed. The Company's Common Shares are currently listed on the New York Stock Exchange.

The Company's purpose in increasing the number of authorized Common Shares available for issuance is described in the preceding paragraph. Nevertheless, the existence of authorized and unissued Common Shares might be considered as having the effect of discouraging an attempt by another person or entity, through the acquisition of a substantial number of the Company's Common Shares, to acquire control of the Company with a view to effecting a merger, sale of the Company's assets or similar transaction, since the issuance of Common Shares could be used to dilute the share ownership and voting rights of such person or entity. Further, any of such authorized but unissued Common Shares could be privately placed with purchasers who might support incumbent management, making a change in control of the Company and removal of incumbent management more difficult.

DESCRIPTION OF CAPITAL SHARES

The Company's Amended Articles currently authorize (a) 200,000,000 Common Shares, $1.00 par value, of which 72,427,300 were issued and outstanding at February 27, 1998; (b) 20,000,000 Serial Preferred Shares, without par value ("Serial Preferred Shares"), none of which are currently outstanding and (c) 5,000,000 Voting Preference Shares, without par value ("Voting Preference Shares"), none of which are currently outstanding (the Serial Preferred Shares and Voting Preference Shares are collectively referred to herein as "Preferred Shares").

Because the Company is a holding company, its rights and the rights of its creditors and shareholders to participate in the assets of any subsidiary upon the latter's liquidation or recapitalization will be subject to the prior claims of the subsidiary's creditors, except to the extent that the Company may itself be a creditor with recognized claims against the subsidiary, other than as a holder of the subsidiary's outstanding shares of capital stock.

In addition, insurance statutes in many states impose limitations on the ability of regulated insurance companies to pay dividends and transfer assets to their affiliates. Such statutes may require prior approval for the payment of dividends by the Company's regulated insurance company subsidiaries to the Company or its affiliates. Since a significant source of the Company's internally generated cash flow is dividends paid to it by its subsidiaries, the Company's ability to meet its obligations and pay dividends on its outstanding shares may be affected by any such limitations or prior approval requirements.

COMMON SHARES

Subject to the rights of the Company's creditors and the holders of any outstanding Preferred Shares, the holders of Common Shares are entitled to receive such dividends as may be declared by the Board of Directors and to share ratably in assets available for distribution upon liquidation. There are no preemptive rights, conversion rights, redemption provisions or

sinking fund provisions with respect to the Common Shares. Holders of Common Shares are entitled to one vote per share. Upon compliance by holders of Common Shares with certain statutory notice provisions, such holders are entitled to cumulate their votes in the election of directors.

PREFERRED SHARES

The Board of Directors of the Company is empowered to authorize the issuance of Serial Preferred Shares and Voting Preference Shares, each of which may be issued in one or more series. All series of Serial Preferred Shares and Voting Preference Shares will rank equally and will be identical in all respects, except that the rights of holders of Serial Preferred Shares and Voting Preference Shares may differ as to voting rights and provisions for certain consents, and that the Board of Directors may fix with respect to each such series without further action by the shareholders, prior to issuance thereof, the following terms: (a) the designation of the series; (b) the authorized number of shares of the series, subject to certain increases and decreases as determined by the Board of Directors from time to time; (c) the dividend rate or rates of the series; (d) the date or dates from which dividends shall accrue and (if applicable) be cumulative and the dates on which and the period or periods for which dividends, if declared, shall be payable; (e) the redemption rights and prices, if any; (f) the terms and amounts of the sinking fund, if any; (g) the amount payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company; (h) whether the shares of the series shall be convertible into Common Shares or shares of any other class and, if so, the conversion rate or rates or price or prices, any adjustments thereof and all other terms and conditions upon which such conversion may be made and (i) the restrictions on the issuance of shares of the same or any other class or series. All series of Preferred Shares would rank, as to dividend and liquidation rights, senior to Common Shares.

The holders of Serial Preferred Shares shall have no voting rights, except as otherwise provided by law and specifically provided in the Amended Articles with respect to certain matters. The holders of Voting Preference Shares shall (x) be entitled to one vote per share, (y) vote as a class with the Common Shares (except as otherwise provided by law or the Amended Articles) and (z) have certain special voting rights substantially similar to those specifically provided to holders of Serial Preferred Shares and special voting rights with respect to certain extraordinary transactions involving the Company. Under the Company's Amended Articles, the affirmative vote or consent of holders of at least two-thirds of the Voting Preference Shares at the time outstanding would be necessary to effect a merger or consolidation with the Company, the sale of all or substantially all of the Company's assets and certain other transactions.

Holders of Preferred Shares will have no preemptive rights to purchase or subscribe for any additional Preferred Shares or other securities of the Company. Preferred Shares may be issued

by the Company if and when the Board of Directors deems it desirable without further shareholder action. The Company has no present plan to issue any Preferred Shares and no Preferred Shares are currently outstanding.

Because of its authority to create and issue any series of Preferred Shares without shareholder approval, the Board of Directors could adversely affect the voting power and other rights of the Common Shares. The issuance of Preferred Shares could also have the effect of delaying, deferring or preventing a change in control of the Company. The ability of the Board of Directors to issue Preferred Shares, while providing flexibility in connection with financings, acquisitions and other corporate purposes, nevertheless could have the effect of discouraging an attempt by another person or entity, through the acquisition of a substantial number of Common Shares, to acquire control of the Company with a view to effecting a merger, sale of the Company's assets or similar transaction, since the issuance of Preferred Shares could be used to dilute the share ownership and voting rights of a person or entity seeking to obtain control of the Company. Additionally, any issuance of Preferred Shares could result in there being a class of shares with conversion features and preference over the Common Shares with respect to dividends and distributions in liquidation and, in the event of any such conversion, could also result in the dilution of net income and book value per share of the Company. Moreover, an issuance or private placement of Voting Preference Shares to or with persons supporting current management of the Company could deter an unsolicited tender offer or other attempt by others to acquire control of the Company with a view to effecting a merger or consolidation with the Company, sale of all or a substantial part of the Company's assets or similar transaction, because the terms of the Voting Preference Shares require that the holders thereof approve all such transactions by a two-thirds vote. As a result, a vote by the holders of such shares could

block a merger, sale of the Company's assets or similar transaction which a majority of the Common Shareholders of the Company believes desirable.

PROVISIONS THAT COULD DISCOURAGE A CHANGE OF CONTROL; OHIO LAWS REGARDING CONTROL SHARE ACQUISITIONS AND MERGER MORATORIUM

The proposed amendment could have the effect of discouraging a merger, tender offer or other change in control of the Company or the replacement of its directors and management. Certain other provisions of the Company's Amended Articles and Code of Regulations, and of Ohio corporation law, could have a similar effect.

The Company's Amended Articles contain requirements for approval of certain business combinations involving the Company. These provisions require that, unless a "fair price" requirement has been satisfied, any merger and certain other business combination transactions involving the Company and any holder of 20% or more of the Company's Common Shares ("Related Person") cannot be completed unless the transaction is approved either by a majority of the Company's "Continuing Directors" (as defined in the Amended Articles) or by the affirmative vote of the holders of 75% of the Common Shares having voting power with respect

to any such proposal and by the affirmative vote of the holders of a majority of the Common Shares having voting power with respect to any such proposal other than the Common Shares owned by the Related Person. Under the "fair price" provision, the cash or other consideration to be paid for each of the Company's Common Shares acquired in the transaction cannot be less than the highest per share price paid by the Related Person in acquiring any of the Company's Common Shares. These provisions may not be amended or repealed except by the vote of holders of 75% of the Common Shares having voting power with respect to any such proposal. The directors and executive officers of the Company beneficially own approximately 15.9% of the outstanding Common Shares.

On April 25, 1997, the Company's shareholders approved amendments to the Company's Code of Regulations which classify the Board of Directors into three classes of directors serving staggered three-year terms, increase the shareholder vote necessary to increase or decrease the number of directors to 75% of the voting power of the Company, require advance written notice to the Company of shareholder nominations for the election of directors and increase the shareholder vote necessary to amend or repeal the foregoing provisions to 75% of the voting power of the Company.

The Code of Regulations of the Company currently provides that directors may be removed without cause only by the affirmative vote of 75% of the voting power of the Company with respect to the election of directors. This provision would prevent a shareholder possessing a majority, but less than 75%, of the voting power of the Company from unilaterally removing directors and replacing them with its own representatives.

In addition, Ohio corporation law requires prior shareholder approval of any "control share acquisition" of certain Ohio corporations, including the Company. A "control share acquisition" is defined as the acquisition of one-fifth, one-third or a majority of the voting power of the corporation in the election of directors. Under these provisions, any person who proposes to make a control share acquisition of the Company is required to notify the Company in advance of the proposed transaction and upon receipt of such notice, the Company must call a special meeting of shareholders to vote on the transaction. A twofold quorum requirement would have to be met at the meeting; that is, both the holders of a majority of the voting shares, and the holders of a majority of the voting shares after excluding shares held by the acquiring person, certain directors and officers of the Company, and certain other holders who have acquired a large block of the Company's stock after public disclosure of the proposed control share acquisition, would have to be present in person or by proxy at the meeting. The proposed acquisition could proceed only if it is approved by a majority of both of these quorums. The notice, special meeting and shareholder approval requirements must be met each time a person's holdings, after giving effect to the proposed share purchase, would exceed any of the one-fifth, one-third or majority voting power thresholds.

Further, Ohio corporation law includes "merger moratorium" provisions that, in general, prohibit certain Ohio corporations, including the Company (an

"issuing public corporation"),

from entering into a merger, consolidation or other specified transaction ("Regulated Transaction") with any person who, together with related parties, has the right to exercise 10% or more of the voting power of the issuing public corporation in the election of directors ("interested shareholder"), for a period of three years after the date on which such person became an interested shareholder ("share acquisition date"), unless, prior to such share acquisition date, the directors of the issuing public corporation approved either the Regulated Transaction or the purchase of shares which resulted in such person becoming an "interested shareholder." After the three-year period, the issuing public corporation may engage in a Regulated Transaction with the interested shareholder only if (a) the directors of such corporation had approved the purchase of shares by the interested shareholder prior to such share acquisition date, (b) the transaction is approved by the affirmative vote of the holders of at least two-thirds of the voting power of the issuing public corporation (or such other proportion as the articles may provide) and by at least a majority of the disinterested shares or (c) certain "fair price" requirements are satisfied with the respect to the consideration payable in the transaction to the holders of disinterested shares.

The Company and its shareholders are subject to the "control share acquisition" and "merger moratorium" laws whether or not the proposed amendment is adopted. The proposed amendment is not part of a comprehensive plan of the Board or management to implement a series of "anti-takeover" measures and neither the Board nor management presently intends to propose any other or additional amendments to the Company's Amended Articles of Incorporation or Code of Regulations that may have such an effect.

VOTE REQUIRED FOR APPROVAL

Under Ohio corporation law and the Company's Amended Articles, the affirmative vote of a majority of the outstanding Common Shares is required for approval of this proposal.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THIS PROPOSAL.

ITEM 3: PROPOSAL TO APPROVE THE PROGRESSIVE CORPORATION 1998 DIRECTORS' STOCK OPTION PLAN

GENERAL

The Progressive Corporation 1998 Directors' Stock Option Plan ("1998 Plan") was adopted by the Board of Directors on February 6, 1998, subject to shareholder approval as described below. The full text of the 1998 Plan will be filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1997. The following description is qualified in its entirety by reference to the 1998 Plan.

The 1998 Plan is subject to approval by shareholders at the Annual Meeting. Such approval is required by the rules of the New York Stock Exchange. If approved by shareholders, the 1998 Plan will replace the 1990 Directors' Stock Option Plan ("1990 Plan") with respect to future stock option awards for directors. The termination of the 1990 Plan will not affect the rights of directors with respect to any outstanding stock options previously granted thereunder. The 1990 Plan is a "formula" plan, under which the decisions concerning the timing, price and amount of all stock option awards granted to participating directors are determined in advance and specified in the Plan. Under the 1990 Plan, after each Annual Meeting of Shareholders, each non-employee director of the Company receives a stock option to purchase 2,000 Common Shares at a per share exercise price equal to the fair market value of the Common Shares on the date of such Annual Meeting. This formula ensured that the grant of such options would qualify for the exemption from the forfeiture provisions of Sections 16(b) of the Securities Exchange Act of 1934 ("1934 Act") provided by Rule 16b-3 of the Securities and Exchange Commission. Generally, Section 16(b) provides for the forfeiture of any profit realized by officers, directors and 10% shareholders of a public company from any combination of a purchase and sale of the company's equity securities within any six-month period

("short-swing liability"). Rule 16b-3 provides an exemption from Section 16(b) for certain transactions under employee stock plans, provided specified conditions are met.

Rule 16b-3 was amended in 1996. Prior to these amendments, the exemption afforded by the Rule was conditioned, among other things, upon shareholder approval of the plan. Under the 1996 amendments, shareholder approval of a stock-based plan is no longer required as a condition to the exemption provided by the Rule; instead individual stock option awards may now be approved by either shareholders, the full board of directors or a board committee consisting of not less than two "non-employee" directors. These amendments allow companies to replace their rigid formula plans with new plans that offer the flexibility to structure the size and value of individual stock option awards in light of competitive conditions, while retaining the exemption from short-swing liability provided by Rule 16b-3, as amended. The Board believes that it is in the best interest of the Company to replace the 1990 Plan with the 1998 Plan in order to provide the Company with the flexibility to determine the size and value of individual awards in light of trends in director compensation and to help ensure that the

Company's compensation program for Board members remains both fair and competitive. If shareholders fail to approve the 1998 Plan, the 1990 Plan will remain in effect until April 27, 2000, and the Company may adopt a cash-based plan or provide other alternative means to attract, retain and reward directors.

The purposes of the 1998 Plan are to enable the Company to attract, retain and reward directors of the Company and to strengthen the mutuality of interest between such directors and the Company's shareholders by offering such directors options to purchase Common Shares of the Company.

The 1998 Plan provides for the granting to eligible directors of the Company of options ("Stock Options") to purchase Common Shares, $1.00 par value, of the Company. All directors of the Company who are not full-time employees of the Company or any of its subsidiaries are eligible to participate in the 1998 Plan. There are currently eight non-employee directors of the Company. Under the terms of the 1998 Plan, Stock Options may be granted with respect to an aggregate of not more than 200,000 Common Shares, subject to adjustment for stock splits and similar events. The Common Shares issuable under the 1998 Plan will be either authorized but unissued or treasury shares. Common Shares subject to Stock Options under the 1998 Plan which are forfeited or terminated or expire unexercised shall be again available for distribution in connection with future awards of Stock Options under the Plan. The closing price of the Common Shares on the New York Stock Exchange on March 3, 1998 was $117 5/16.

ADMINISTRATION

The 1998 Plan will be administered by the Executive Compensation Committee of the Board of Directors. The Committee consists of not less than three Board members, all of whom are "non-employee directors" within the meaning of Rule 16b-3. The Committee members serve at the pleasure of the Board.

The Committee has full power and authority to interpret and administer the 1998 Plan, to select the individuals to whom awards will be granted under the 1998 Plan and to determine the number of shares that may be purchased under awards granted to each participant, the consideration, if any, to be paid for such awards, the timing of such awards, the terms and conditions of such awards and the terms and conditions of the related stock option agreements entered into with participants.

The Committee has the authority to adopt, alter and repeal such rules, guidelines and practices governing the 1998 Plan as it shall deem advisable from time to time; to interpret the terms and provisions of the plan and any award issued under the plan (and any agreements relating thereto); and to otherwise supervise the administration of the plan.

TERMS OF STOCK OPTIONS

Each Stock Option granted under the 1998 Plan will be evidenced by the execution of a stock option agreement in form approved by the Committee. The option exercise price per Common Share under a Stock Option will be equal to the Fair Market Value (as defined in the 1998 Plan) of the Common Shares on the date of grant. The Committee may substitute new Stock Options for previously granted Stock Options, including previously granted Stock Options having a higher option exercise price.

The term of each Stock Option will be determined by the Committee and may not exceed 10 years from the date of grant.

The Committee will determine the time or times at which, and the conditions under which, each Stock Option may be exercised. Unless otherwise determined by the Committee at or after grant, no Stock Option may be exercisable prior to six months and one day following the date of grant. The Committee may provide that Stock Options may be exercisable only in installments or only after a specified vesting date, and the Committee may accelerate or waive such installment exercise provisions or vesting date at any time at or after the date of grant.

Stock Options may be exercised, in whole or in part, by giving written notice of exercise to the Company specifying the number of Common Shares to be purchased. Such notice must be accompanied by payment in full of the purchase price for such Common Shares, either in cash or by check or such other instrument as the Company may accept. Unless otherwise determined by the Committee, the option exercise price may be paid in full or in part by delivery of unrestricted Common Shares or Common Shares that are part of the Stock Option being exercised. In each case, the Common Shares so delivered will be valued at Fair Market Value on the exercise date.

Stock Options shall not be transferable by the participant. All Stock Options may be exercised only by the participant, by his estate in the event of his death, or by his authorized legal representative if the participant is unable to exercise an option as a result of disability.

If a participant dies while holding an unexercised Stock Option, such Stock Option may thereafter be exercised, to the extent such option was exercisable at the time of death or would have become exercisable within one year thereafter had the participant continued to fulfill all conditions of the award during such period, by the participant's estate (acting through its fiduciary) for a period of one year from the date of death, regardless of the term of the Stock Option remaining after the participant's death. The balance of the Stock Option will be forfeited.

If a participant is unable to serve as a director by reason of disability, any Stock Option then held by such participant may thereafter be exercised, to the extent such Stock Option was exercisable at the inception of such disability or would have become exercisable within one year thereafter had the participant continued to fulfill all conditions of the award during such period, by the participant or by the participant's duly authorized legal representative if the participant

is unable to exercise the Stock Option as a result of his disability, for a period of one year (or such other period as the Committee may specify at or after grant) from the date of the inception of such disability; provided, however, that in no event may any such Stock Option be exercised prior to six months and one day from the date of grant. The balance of the Stock Option will be forfeited.

The Company may at any time buy out, for a payment in cash or Common Shares, a Stock Option previously granted, on such terms and conditions as shall be agreed upon by the Company and the participant.

CHANGE IN CONTROL

Certain acceleration and valuation provisions take effect with respect to outstanding Stock Options upon the occurrence of a Change in Control or a Potential Change in Control (as such terms are defined in the 1998 Plan) of the Company. In the event of a Change in Control or a Potential Change in Control, any Stock Options then outstanding will be cashed out for the Change in Control Price (as defined in the 1998 Plan), unless the Change in Control is approved by the Board of Directors prior thereto.

ADJUSTMENTS FOR STOCK DIVIDENDS, MERGERS, ETC.

In the event of any consolidation or merger, stock split or combination, stock dividend or other change in the Common Shares, such adjustment will be made in the aggregate number of shares reserved for issuance under the 1998 Plan, and in the number and option price of shares subject to outstanding Stock Options as shall be necessary to prevent dilution of the participants' interests.

AMENDMENT AND TERMINATION

The Board may at any time, in its sole discretion, amend, alter or discontinue the 1998 Plan, or amend the terms of any outstanding Stock Option granted thereunder. No such action shall be taken, however, which would impair the rights of a participant under a Stock Option previously granted without the participant's consent. The Company's shareholders will be asked to approve any amendment to the 1998 Plan required to be submitted for shareholder approval under Section 16 of the 1934 Act or the rules and regulations promulgated thereunder or under the rules of the New York Stock Exchange.

FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following is a brief summary of the general federal income tax consequences of transactions under the 1998 Plan based on federal income tax laws in effect as of the date hereof. This summary is not intended to be exhaustive and does not describe foreign, state or local tax consequences.

Stock Options granted under the 1998 Plan do not qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended ("Code"), and are therefore deemed to be non-qualified stock options for federal income tax purposes. Generally, therefore, (a) no income is realized by the optionee at the time the option is granted; (b) upon exercise of the option, the optionee realizes ordinary income in an amount equal to the excess, if any, of the fair market value of the shares on the date of exercise over the option exercise price paid for the shares, and the Company is entitled to a tax deduction in the amount of ordinary income realized (provided that applicable reporting requirements are satisfied); and (c) upon disposition of the shares received upon the exercise of the option, the optionee recognizes, as either short-term, mid-term or long-term capital gain (loss), depending upon the length of time that the optionee has held the shares, gain (loss) equal to the difference between the amount realized and the fair market value of the shares on the date of exercise.

With respect to the exercise of a Stock Option and the payment of the option exercise price by the delivery of shares, to the extent that the number of shares received does not exceed the number of shares surrendered, no taxable income will be realized by the optionee at that time, the tax basis of the shares received will be the same as the tax basis of the shares surrendered, and the holding period of the optionee in the shares received will include his holding period in the shares surrendered. To the extent that the number of shares received upon the exercise of the option exceeds the number of shares surrendered, ordinary income will be realized by the optionee at that time in the amount of the fair market value of such excess shares, the tax basis of such excess shares will be such fair market value, and the holding period of the optionee in such shares will begin on the date such shares are transferred to the optionee.

Upon a subsequent sale of any shares acquired pursuant to the exercise of a Stock Option, an optionee will have capital gain (loss) equal to the difference between the amount realized upon such sale and the optionee's basis in the shares. The optionee's basis is equal to the sum of the purchase price of such shares and the amount of income, if any, recognized upon the exercise of such Stock Option. Whether any such capital gain (loss) is short-term, mid-term or long-term will depend on the optionee's holding period with respect to the shares.

CAPITAL GAINS

Under current law, long-term capital gains of individuals are subject to a maximum tax rate of 20% (or 10% for individuals in the 15% ordinary income tax

bracket). Mid-term capital gains of individuals are subject to a maximum tax rate of 28%. Short-term capital gains of individuals are subject to the same tax rates as those applicable to ordinary income. Capital losses must be offset against any capital gains, and only the lesser of the excess of such capital losses over such capital gains or $3,000 ($1,500 in the case of a married individual filing a separate return) is deductible against other income.

Long-term capital gain or loss treatment is applicable if the holding period is more than 18 months. Mid-term capital gain or loss treatment is applicable if the holding period is more than

one year but not more than 18 months. Short-term capital gain or loss treatment is applicable if the holding period is one year or less.

OTHER BENEFIT PLANS FOR DIRECTORS

In voting on this proposal, shareholders should consider the provisions that the Company has already made to compensate and reward directors. The Company pays retainer and meeting fees to directors, maintains the Directors Deferral Plan and has granted stock options to participating directors under the 1990 Plan. These fees and plans are described above under "Executive Compensation," beginning on page 9.

VOTE REQUIRED FOR APPROVAL

The affirmative vote of a majority of the votes cast on this proposal, provided the total number of votes cast represents a majority of the outstanding Common Shares, is required for the approval of this proposal.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THIS PROPOSAL.

INDEPENDENT ACCOUNTANTS

At the meeting of the Board of Directors of the Company held on February 6, 1998, the Board selected Coopers & Lybrand L.L.P. to serve as the independent accountants for the Company and its subsidiaries for 1998. Representatives of Coopers & Lybrand L.L.P. are expected to be present at the Annual Meeting with the opportunity to make a statement about the Company's financial condition, if they desire to do so, and to respond to appropriate questions.

SHAREHOLDER PROPOSALS

Any shareholder who intends to present a proposal at the 1999 Annual Meeting of Shareholders for inclusion in the proxy statement and form of proxy relating to that meeting is advised that the proposal must be received by the Secretary at the Company's principal executive offices located at 6300 Wilson Mills Road, Mayfield Village, Ohio 44143, not later than November 25, 1998. The Company will not be required to include in its proxy statement or form of proxy any shareholder proposal which is received after that date or which otherwise fails to meet requirements for shareholder proposals established by regulations of the Securities and Exchange Commission.

SHAREHOLDER VOTE TABULATION

Votes will be tabulated by or under the direction of Inspectors of Election, who may be regular employees of the Company. The Inspectors of Election will certify the results of the voting at the Annual Meeting.

The director nominees who receive the greatest number of affirmative votes will be elected directors. Abstentions and broker non-votes thus will not affect the results of the election.

The proposal to amend the Company's Amended Articles of Incorporation to increase the number of authorized Common Shares from 200,000,000 to 300,000,000 will be adopted if approved by the affirmative vote of a majority of the outstanding Common Shares. Abstentions and broker non-votes will not be counted as affirmative votes and thus will have the same effect as a vote against this proposal.

The proposal to approve The Progressive Corporation 1998 Directors' Stock Option Plan will be adopted if approved by the affirmative vote of the majority of the votes cast on the proposal, provided a majority of the outstanding Common Shares are voted on the proposal. Abstentions and broker non-votes will not be counted as cast votes.

OTHER MATTERS

The solicitation of proxies is made by and on behalf of the Board of Directors. The cost of the solicitation, including the reasonable expenses of brokerage firms or other nominees for forwarding proxy materials to beneficial owners, will be borne by the Company. In addition to solicitation by mail, proxies may be solicited by telephone, telegraph or personally. The Company has engaged the firm of Morrow & Co., New York, New York, to assist it in the solicitation of proxies at an estimated cost of $16,000. Proxies may be solicited by directors, officers and employees of the Company without additional compensation.

If the enclosed proxy is executed and returned, the shares represented thereby will be voted in accordance with any specifications made therein by the shareholder. In the absence of any such specifications, the proxies will be voted (a) to elect the three nominees named under "Election of Directors" above; (b) FOR the proposal to amend the Company's Amended Articles of Incorporation to increase the number of authorized Common Shares from 200,000,000 to 300,000,000 and (c) FOR the proposal to approve The Progressive Corporation 1998 Directors' Stock Option Plan.

The presence of any shareholder at the meeting will not operate to revoke his proxy. A proxy may be revoked at any time insofar as it has not been exercised by giving written notice to the Company or in open meeting.

If any other matters shall properly come before the meeting, the persons named in the proxy, or their substitutes, will vote thereon in accordance with their judgment. The Board of Directors does not know at this time of any other matters that will be presented for action at the meeting.

AVAILABLE INFORMATION

THE COMPANY WILL FURNISH, WITHOUT CHARGE, TO EACH PERSON TO WHOM A PROXY STATEMENT IS DELIVERED, UPON ORAL OR WRITTEN REQUEST, A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR 1997 (OTHER THAN CERTAIN EXHIBITS). REQUESTS FOR SUCH DOCUMENT SHOULD BE SUBMITTED IN WRITING TO JEFFREY W. BASCH, CHIEF ACCOUNTING OFFICER, THE PROGRESSIVE CORPORATION, 6300 WILSON MILLS ROAD, MAYFIELD VILLAGE, OH 44143, OR BY TELEPHONE AT (440) 446-2851.

By Order of the Board of Directors.

David M. Schneider, Secretary

March 17, 1998

EXHIBIT A

The following is the full text of the first paragraph of Article FOURTH of the Amended Articles of Incorporation of The Progressive Corporation ("Company"), reflecting the amendment described in Item 2 of the Company's Proxy Statement dated March 17, 1998.

> FOURTH. The authorized number of shares of the corporation is 325,000,000, consisting of 20,000,000 Serial Preferred Shares, without par value (hereinafter called "Serial Preferred Shares"), 5,000,000 Voting Preference Shares, without par value (hereinafter called "Voting Preference Shares"), and 300,000,000 Common Shares, $1.00 par value

(hereinafter called "Common Shares").

THE PROGRESSIVE CORPORATION

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING OF SHAREHOLDERS

The undersigned hereby appoints Charles B. Chokel, David M. Schneider and Dane A. Shrallow, and each of them, with full power of substitution, as proxies for the undersigned to attend the Annual Meeting of Shareholders of The Progressive Corporation, to be held at 6671 Beta Drive, Mayfield Village, Ohio, at 10:00 a.m., Cleveland time, on April 24, 1998, and thereat, and at any adjournment thereof, to vote and act with respect to all Common Shares of the Company which the undersigned would be entitled to vote, with all power the undersigned would possess if present in person, as follows:

1. [ ] WITH or [ ] WITHOUT authority to vote (except as marked to the contrary below) for the election as directors of all three nominees listed below, each to serve for a term of three (3) years.

B. Charles Ames, Peter B. Lewis and Donald B. Shackelford

(INSTRUCTION: To withhold authority to vote for any individual nominee, print that nominee's name on the space provided below.)

----

2. Proposal to approve an amendment to the Company's Amended Articles of Incorporation to increase the number of authorized Common Shares, $1.00 par value, from 200,000,000 to 300,000,000.

[ ] FOR [ ] AGAINST [ ] ABSTAIN

3. Proposal to approve The Progressive Corporation 1998 Directors' Stock Option Plan.

[ ] FOR [ ] AGAINST [ ] ABSTAIN

(Continued, and to be dated and signed, on the other side)

(Continued from the other side)

4. In their discretion, to vote upon such other business as may properly come before the meeting.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS SPECIFIED BY THE SHAREHOLDER. IF NO SPECIFICATIONS ARE MADE, THIS PROXY WILL BE VOTED TO ELECT THE NOMINEES IDENTIFIED IN ITEM 1 ABOVE AND TO APPROVE THE PROPOSALS DESCRIBED IN ITEMS 2 AND 3 ABOVE.

Receipt of Notice of Annual Meeting of Shareholders and the related Proxy Statement dated March 17, 1998, is hereby acknowledged.

Date: ______________________, 1998

Signature of Shareholder(s)

PLEASE SIGN AS YOUR NAME OR NAMES APPEAR HEREON. IF SHARES ARE HELD JOINTLY, ALL HOLDERS MUST SIGN. WHEN SIGNING AS ATTORNEY, EXECUTOR, ADMINISTRATOR, TRUSTEE OR GUARDIAN, PLEASE GIVE YOUR FULL TITLE. IF A CORPORATION, PLEASE

SIGN IN FULL CORPORATE NAME BY
PRESIDENT OR OTHER AUTHORIZED
OFFICER. IF A PARTNERSHIP, PLEASE
SIGN IN PARTNERSHIP NAME BY
AUTHORIZED PERSON.

Proxy Card

Sixtieth Anniversary Edition

TRUE STORIES

[STAR]

The Progressive Corporation Annual Report 1997

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words and pictures

Progressive is committed to providing innovative insurance products and services at the lowest possible cost. We respond to consumers 24 hours a day, 7 days a week when, how and where they need us. But don't take our word for it. In this year's annual report we'd like to share with you just a few of the stories of the past year--stories that we believe show how Progressive is meeting customers' needs and changing the face of auto insurance. And to let you in the picture fully, we have commissioned eleven artists to respond visually to each of our narratives. The efforts on paper and canvas of Marty Ackley, Donald Baechler, Linda Burnham, Jody Guralnick, Jane Hammond, David Humphrey, Sean Mellyn, Amy Sillman, Elena Sisto, Megan Williams and Andy Yoder appear in the pages to come and will join Progressive's growing collection of contemporary art.

[ARTWORK]

no. 1

a story of success

Our company recently celebrated its 60th year of operations. In 1937, the Progressive insurance organization began business during a difficult but hopeful era. From the start, we have been a forward-looking firm, growing into new markets and pioneering new ways to meet consumers' needs. In 1956, when Progressive Casualty Insurance Company was founded, we became one of the first specialty underwriters of nonstandard auto insurance. In 1965, our success led to the formation of The Progressive Corporation, a holding company whose 86 subsidiaries and 1 mutual insurance company affiliate have since provided a range of personal automobile and other specialty property-casualty insurance and related services throughout the United States and Canada. As we end the year, our market (which includes personal auto insurance in the U.S. and Ontario, along with commercial vehicle insurance) is estimated to consist of $135.4 billion of premiums and Progressive finds itself with a 3.3% share.

Donald Baechler, acrylic and collage on paper, 1997

1997 Financial Highlights

(millions-except per share amounts)				AVERAGE ANNUAL COMPOUNDED RATE OF INCREASE (DECREASE)	
	1997	1996	% CHANGE	5-YEAR 1993-1997	10-YEAR 1988-1997
FOR THE YEAR					
Direct premiums written	$ 4,825.2	$ 3,638.4	33%	24%	15%
Net premiums written	4,665.1	3,441.7	36	26	15
Net premiums earned	4,189.5	3,199.3	31	24	15
Total revenues	4,608.2	3,478.4	32	22	16
Operating income	336.0	309.1	9	21	14
Net income	400.0	313.7	28	21	16
Per share(1):					
Operating income	4.46	4.12	8	21	15
Net income	5.31	4.14	28	21	17
Underwriting margin(2)	6.6%	8.5%		8	6
AT YEAR-END					
Consolidated shareholders' equity	$ 2,135.9	$ 1,676.9	27	28	18
Common Shares outstanding	72.3	71.5	1	2	(2)
Book value per Common Share	$ 29.54	$ 23.45	26	30	20
Market capitalization	$ 8,667.0	$ 4,817.3	80	35	26
Return on average common shareholders' equity(2)	20.9%	20.5%		23	23
STOCK PRICE APPRECIATION(3)			1-YEAR	5-YEAR	10-YEAR
Progressive			78.4%	33.3%	29.0%
S&P 500			33.3%	20.2%	18.0%

1 Presented on a diluted basis.

2 The 5- and 10-year amounts represent averages for the period, not rates of increase.

3 Assumes dividend reinvestment.

Vision, Core Values and Objectives

Communicating a clear picture of Progressive by stating what we try to achieve (Vision), what guides our behavior (Core Values), what our people expect to accomplish (Objectives), and how we evaluate performance (Measurements), permits all people associated with Progressive to understand their role and enjoy their contributions.

VISION
We seek to be an excellent, innovative, growing and enduring business by reducing the human trauma and economic costs of auto accidents, theft and other perils while building a recognized, trusted, admired, business-generating consumer brand. We seek to earn a superior return on equity and to provide a positive environment to attract quality people and achieve ambitious growth plans.

CORE VALUES
Progressive's Core Values are pragmatic statements of what works best for us in the real world and they govern our decisions and behavior. We want them understood and embraced by all Progressive people. Growth and change provide new perspective and require regular refinement of Core Values.

Integrity We revere honesty. We adhere to high ethical standards, report completely, encourage disclosing bad news and welcome disagreement.

Golden Rule We respect all people, value the differences among them and deal with them in the way we want to be dealt with. This requires us to know ourselves and to try to understand others.

Objectives We strive to be clear and open about Progressive's ambitious objectives and our people's personal and team objectives. We evaluate performance against all these objectives.

Excellence We strive constantly to improve in order to meet and exceed the highest expectations of our customers, shareholders and people. "Quality" is Progressive's process for teaching and encouraging our people to improve performance and reduce the costs of what they do for customers. We base rewards on results and promotion on ability.

Profit The opportunity to earn a profit is how the competitive free-enterprise system motivates investment to enhance human health and happiness. Our increasing profits reflect our customers and claimants increasingly positive view of Progressive. We strive to find the most cost-effective ways to reduce the human trauma and economic costs of automobile accidents. We value social and economic well-being and strive to give back to our communities.

They knew they had found their policyholder when they saw the balloons: "I've had an accident. I'm at a phone booth. I'm late for a party and I'm holding three balloons." Not that they had to look far. Two Progressive representatives were busy organizing a new claim office in the Bronx when the Manhattan office called and asked if they could help a policyholder who had a minor auto accident nearby. They looked out the window and there she was! Now, Progressive has been opening new claim offices across the country to ensure that our Immediate Response(R) claims service is just that--immediate. But even we can't pretend to have located our Bronx office with that degree of foresight. Still, there was something uncanny about the whole situation. We were preparing for a grand opening, our policyholder had the balloons, and our Bronx office responded to its first claim in about 30 seconds. Might make you think that Progressive is

a company of destiny.

Sean Mellyn, oil on canvas, 1997

OF BALLOONS
AND FATE

NO. 2

6

49

[ARTWORK]

7

50

[ARTWORK]

8

51

Until our claim representative Robert Simon arrived on the scene, a Progressive policyholder in Garden City, Kansas was having a bad day. First, some of his cows were missing. Then, when he set off after them, his truck got stuck in a field. Finally, while trying to get unstuck, he inadvertently started a grass fire that almost removed the garden from Garden City. It spread for three miles destroying fields, fences and equipment. How did our claim representative react? Unable to assess the devastation from the ground, he hired a pilot to fly him over the scene, swooped down out of the clouds and determined that the damage wasn't as bad as it seemed. In the end, the claim was settled within the property damage policy limits. Progressive's claim representative Robert Simon may not have saved the day entirely, but he certainly took the edge off.

Jane Hammond, mixed media on rice paper, 1997

ABOVE AND BEYOND

NO. 3

9

52

Financial Objectives and Measurements

Consistent achievement of superior results requires that our people understand

Progressive's objectives and their specific role, and that their personal objectives dovetail with Progressive's. Our objectives are ambitious yet realistic. We are committed to achieving financial objectives over rolling five-year periods. Experience always clarifies objectives and illuminates better strategies. We constantly evolve as we monitor the execution of our strategies and progress toward achieving our objectives.

RETURN ON SHAREHOLDERS' EQUITY

Our most important financial goal is to achieve an after-tax return on shareholders' equity over a five-year period that is at least 15 percentage points greater than the rate of inflation (measured by the Consumer Price Index which was 1.7% in 1997, and averaged 2.6% over the past five years and 3.4% over the past ten years). Return on equity was 20.9% in 1997, and averaged 23.3% over the past five years and 22.8% over the past ten years.

PROFITABILITY

Progressive is driven by the goal of producing a 4% underwriting profit over the entire retention period of an insured. Overall, we had an underwriting profit of 6.6% in 1997, 8.1% for the past five years and 5.8% for the past ten years. Estimated industry results for the personal auto insurance market were underwriting gains of 2.0% in 1997 and underwriting losses of .6% and 3.0%, for the past five and ten years, respectively.

GROWTH

We seek increases in net premium volume that are at least 15 percentage points greater than the rate of inflation. Company-wide net premiums written increased 35.5% in 1997, 26.3% compounded annually over the past five years and 15.4% over the past ten years. Net premiums written in the personal auto insurance market for the same periods grew 5.9%, 5.3% and 5.9%.

ACHIEVEMENTS

We are convinced that the best way to maximize shareholder value is to achieve these financial objectives consistently. A shareholder who purchased 100 shares of Progressive for $1,800 in our first public stock offering on April 15, 1971, owned 7,689 shares on December 31, 1997, with a market value of $922,000, for a 26.3% compounded annual return, compared to the 8.9% return achieved by investors in the Standard & Poor's 500 during the same period. In addition, the shareholder received dividends of $1,845 in 1997, bringing total dividends received to $16,345 since the shares were purchased.

In the ten years since December 31, 1987, Progressive shareholders have realized compounded annual returns of 29.0%, compared to 18.0% for the S&P 500. In the five years since December 31, 1992, Progressive shareholders' returns were 33.3%, compared to 20.2% for the S&P 500. In 1997, the returns were 78.4% on Progressive shares and 33.3% on the S&P 500.

The repurchase of Progressive stock is another way the Company increases shareholder value. Over the years, when we have adequate capital and Progressive's stock is attractively priced, we have repurchased our shares. Since 1971, we spent $571.2 million repurchasing our shares, at an average cost of $6.96 per share. During 1997, we repurchased 30,193 Common Shares to offset obligations under various employee benefit plans.

1997 Objectives and Accomplishments

	1997	last 5 years	last 10 years
RETURN ON SHAREHOLDERS' EQUITY			
Objective	16.7%	17.6%	18.4%
Accomplishment	20.9	23.3	22.8

UNDERWRITING PROFIT (LOSS)			
Objective	4.0	4.0	4.0
Accomplishment	6.6	8.1	5.8
Industry-Personal Auto Insurance Market	2.0	(.6)	(3.0)
GROWTH (ANNUALIZED)			
Objective	16.7	17.6	18.4
Accomplishment	35.5	26.3	15.4
Industry-Personal Auto Insurance Market	5.9	5.3	5.9

In a free-association test recently administered to 1,153 college students, the word "insurance" prompted the response "romance" in 82.8% of cases...Alright, we admit it--we're only kidding. Still, for our claim representatives (at our more than 350 claim offices), romance isn't an unknown continent. On a recent Saturday evening, Chandra Haines, a Progressive claim representative in Savannah, Georgia came to the rescue of a young couple involved in a fender bender. She helped them contact their families, and, despite the late hour, arranged to have their car repaired immediately. The couple, who had just been married, were heading to Florida for their honeymoon and had thought for certain their trip was ruined. But they weren't counting on the efficiency of Progressive's Immediate Response(R) claims service. In a romantic cause, our claim representatives stand ready to slay any dragon.

THE
ROMANCE
OF
IMMEDIATE RESPONSE

NO. 4

Marty Ackley, mixed media on canvas, 1997

[ARTWORK]

[ARTWORK]

NO. 5

Question: When is a two-hour delay still an immediate response? Answer: When a tornado rips through your property and the rest of your neighborhood. It took a Progressive claim representative two hours one Friday evening to navigate his way through the debris and find the home of one of our policyholders after a tornado wreaked havoc in Smyrna, Tennessee. The twister had lifted our policyholder's garage high into the air and then very considerately deposited it straight down onto his pickup truck. Our claim representative made his way to the scene, assessed the damage and had a check in the policyholder's hand by the next business day. Under the circumstances, we hesitate to call our service a whirlwind, but we won't sit at home waiting out the weather.

WHIRLWIND

Megan Williams, gouache, pastel and charcoal on paper, 1997

Letter to Shareholders

In 1997, Progressive continued on its path to leadership in automobile insurance. I am proud and happy to report that we believe that our private passenger auto premium growth in 1997 made Progressive the 5th largest United States auto insurance company. We grew in 1997 by increasing our share of the approximately $25 billion nonstandard auto insurance market and by continuing to grow in the approximately $89 billion standard and preferred auto insurance market. We work hard and invest heavily in people and process in order to reduce the human trauma and economic costs of auto accidents. Our results reflect the cost of these investments, designed to make us more competitive for all auto insurance.

In 1997, Progressive's organization continued to adapt to the Company's larger size and focus on the customer. Our focus on "Process" became more ingrained and natural, and a number of major accomplishments occurred.

During 1997, we hired and trained over 5,700 people company-wide to help us keep pace with our extraordinary growth. Our net premiums written grew 36% and our total number of auto policyholders increased by 575,000 to 2.5 million. We answered 16 million telephone calls during the year, responding to the policy servicing needs of our customers 24 hours a day, 7 days a week. To maintain our high standards and meet our customers' expectations was a challenge. We identified opportunities to improve this process and made strides in this direction by rolling out the first iteration of our Ownership Workbench, a smart system designed to increase customer service, quality and productivity.

Despite the record increase in new employees, we were also able to improve the timeliness of our Immediate Response(R) claims service and produce an average claim severity that was more favorable than the entire industry. In addition to hiring quality people, we continued to make significant investments in technology to improve the way we respond to customers. We installed new phone switches in our claim branches and developed new workflows to more effectively answer our 25,000 daily claim calls. Also, through our wireless Claims Workbench, we were able to increase the amount of information our claim representatives have available when they meet with customers off-site.

Progressive recognized early on that the Internet would be come an increasingly important vehicle for commerce communication. We launched America's first auto insurance web site in April 1995, offering our customers a quick way to find a local agent and to determine whether their vehicle is subject to any federal recall. We continued to lead the way, being the first auto insurer to offer interactive quoting and customer account status in 1996 and the first to

conduct direct Internet sales and accept online payments in 1997. Progressive's web site (www.progressive.com) has won several awards, being named one of ComputerWorld magazine's Premier 100 Web Sites and WebMaster magazine's top 50 Internet sites. As our experience with the Internet grows, so does our excitement around how it will benefit our customers and our agents. Plans for the future include enabling agents and customers to conduct more of their transactions online, broadening our online sales offerings, and offering "paperless" alternatives to our customers and agents.

Progressive's strong focus on customers leads to steady growth in market share which, in turn, permits us to reduce the costs of doing business and become even more competitive. Our people's superb response to the challenge of creating and managing growth reaffirms both how committed and how talented they are. Great

people operating with a clear Vision, strong Core Values and creative Strategies will continue to drive Progressive's profitable growth.

Like all shareholders, we want premium growth to translate into current earnings growth and a higher stock price. However, we manage by executing meaningful, long-term strategies that build value which we expect to be reflected in the stock price over five-year periods. Therefore, as an investment, Progressive stock may be most attractive to investors interested in long-term appreciation. On August 1, 1997, Standard & Poor's recognized our leadership in the auto insurance business and strong historical financial performance by adding Progressive to the S&P 500 Index. I am proud to report that Progressive's total return to shareholders' in 1997, was 78.4%, ranking 28th out of the 500 companies in this index.

To facilitate growth and the execution of our strategies, we expanded the number of local business units to bring us closer to the customer. During 1997, we formed 21 new business units bringing the number of communities/states where our operations are run by a local manager to 47 and bringing the total number of business units to 54. In addition, we expanded our "Policy Team," which is now comprised of 13 people who make Progressive's final management-level decisions. A new role on the Policy Team is the Community Manager Support Process Leader who is responsible for encouraging experimentation, fostering communication among community managers and advocating community manager perspectives on the Policy Team. This Process Leader joins our six other Process Leaders, respectively responsible for Product, Independent Agent Marketing, Consumer Marketing, Ownership (customer service), Technology and Claims, as well as the Chief Financial, Human Resources, Legal, Information and International/Internet Officers, and me, to ensure that we sustain our superior performance in the face of increasingly intense competition and increasingly rapid technological change.

Most community managers report to Process Leaders. Community managers are responsible for reducing claim costs while improving service, managing agent distribution and relationships, direct marketing, and deciding price levels for their territory. During 1997, we concentrated on developing our community managers to help them meet their objectives. We defined the necessary competencies and attributes and designed a Leadership Model showing how these qualities are linked to attaining world-class results. Several community managers participated in a week-long program focused on the dimensions included in the model. The cornerstone of the experience was an assessment tool which provided feedback to community managers and helped them create individual development plans.

Progressive's unique approach to management continues to evolve along with its business strategy. Our management philosophy includes the following:

Total Quality Management dovetails with our Excellence Core Value--doing better than we did before--and empowers Progressive people to change how they function if the change measurably improves customer service or reduces costs, and if it does not disrupt others in the work chain. Because measurement is essential to TQM, we have dramatically improved our ability to measure performance and to control quality.

Teamwork is the way we work. We continue to improve the ways in which we motivate, manage, evaluate and reward teams.

Steady Cost Reduction has been, and continues to be, critical to our strategy. Underwriting expenses were 22.5% of premiums in 1997, compared to 21.6% in 1996 and 35.0% in 1990.

In 1997, we incurred additional expenses to support our infrastructure and to hire and train people in anticipation of our growth. We also introduced our advertising campaign to 13 states, bringing the total number of states where we advertise to 19. In addition, we paid out record profit-sharing bonuses to employees this year. In 1997, 14.4% of total compensation resulted from our Gainsharing program (contingent cash incentive compensation program for all Progressive people). We set our annual Gainsharing target at achieving a combined ratio of 96% over the entire retention period of a policyholder and growth in net premium volume in excess of 15% plus the rate of inflation. Our outstanding financial results caused our payout to exceed our annual target by an amount that had a .5 point effect on the expense ratio. Process Management by top managers eliminates much staff/line friction, fosters cooperation among business units and departments, and requires balancing delicate trade-offs between local autonomy and collective effectiveness.

Thorough Testing of new ideas has replaced our former propensity to seize perceived opportunities and develop them as fast as possible.

Performance-based Compensation pays our people very well for exceptional performance, makes contingent pay significant to everyone and fosters the achievement of our demanding objectives.

RESULTS

In 1997, net premiums written increased 36% to $4,665.1 million, compared to $3,441.7 million in 1996. We posted an annual underwriting profit for the 25th time in the last 31 years and bettered our 4% underwriting goal with a 6.6% margin in 1997.

Operating income, which excludes net realized gains on security sales and one-time items, is the best measure of how well we manage our insurance operations. Operating income increased to $336.0 million, or $4.46, compared to $309.1 million, or $4.12 per share, in 1996. Operating income excludes $98.5 million of net realized gains in 1997, compared to $7.1 million in 1996. Net income was $400.0 million, or $5.31 per share, this year, compared to $313.7 million, or $4.14 per share, in 1996. Return on shareholders' equity was 20.9%, compared to 20.5% in 1996.

PROGRESSIVE'S CORE BUSINESS

Ninety-six percent of Progressive's net premiums written is insurance for private passenger automobiles, recreational vehicles and small fleets of commercial vehicles, which we categorize as "core." Core business net premiums written grew 33% to $4,467.4 million, compared to $3,367.2 million in 1996. The underwriting profit margin was 6.9%, compared to 8.1% in 1996.

In 1997, we used a new approach which includes rating based partially upon consumer financial responsibility. This approach has been approved by regulators and is in use in the 31 states that represent 80% of our core written premiums. We hope to complete the rollout of this approach into the remaining business units where it can be offered in 1998. We believe our use of financial responsibility in auto insurance rating produces a more accurate distribution of losses among consumers and, therefore, produces more accurate pricing resulting in lower rates for most consumers as compared to our previous approach. In addition, by ensuring more consistent products on a national basis, we are able to analyze the data better and reduce the complexity of our products for our customer service representatives and programmers.

Four years ago, we consolidated our new, unique and superior customer services into a Progressive brand by expanding service in a number of states and testing ways to project the brand to potential customers. We focused managers on empowering people and constantly improving the delivery of around-the-clock, immediate response, information-rich service, designed to delight customers.

We use a combination of television commercials, direct mail and other media to urge consumers to consider Progressive's unique combination of price and service. In 1997, we expanded the number of markets in which we advertise to over 40 media markets reaching parts of 19 states.

Our advertising is largely situational and dramatizes the concerns consumers have in claims and buying experiences with their auto insurance and highlights "what you should expect" as the Progressive difference. Several new commercials were developed in 1997 and will be used in 1998 to further our brand communication. The consumers' choice to buy through our independent agent network or by calling 1 800 AUTO PRO(R) (1-800-288-6776) is supported by our advertising and we are encouraged by its impact on both distributions. In an average 15-minute call, consumers can receive a quote for their particular risk profile from Progressive as well as the rates that would be charged by up to three other leading auto insurers, including State Farm and Allstate. Our representative also explains the following service improvements, which when considered together, are unique to Progressive:

Assistance after an accident, or other loss, is Progressive's most important service, so we implore our customers to call 1-800-274-4499 immediately after any incident. Twenty four hours a day, 7 days a week, a Progressive person answers the phone, takes the information, authorizes emergency measures and almost always can have a Progressive claim representative meeting with the customer or claimant within a few hours.

Universal acceptance, because consumers abhor being rejected or cancelled. Progressive rarely rejects and never cancels honest customers who pay their premiums in the 45 states where our complete program is operative.

Competitive rates for risks from ultra-preferred to nonstandard in the states with our complete program. As experience makes us more comfortable with pricing standard/preferred risks, we increasingly concentrate on this market which accounted for between 20% and 25% of 1997 core premium volume and is expected to become an increasing percentage of total premium volume.

Many different ways to buy, to accommodate different consumer preferences. More than 30,000 independent insurance agencies (our most important method of distribution) sell Progressive products. In addition, we have joint marketing relationships with national accounts and Progressive's 1 800 AUTO PRO(R) telephone service. In 1997, increased price competitiveness, superior service and greater consumer awareness of the Progressive brand

helped independent agents regain lost standard and preferred auto market share. The number of independent agencies writing Progressive standard and preferred auto more than doubled, resulting in 126% growth of agent-produced standard and preferred new auto policies. 24 hours a day, 7 days a week service. Consumers want to do business when it's convenient for them, so we operate 24 hours a day, 7 days a week to provide new insurance quotes, handle endorsements and questions concerning current policies, and, most importantly, respond to accidents and other incidents. Our customers depend upon our service, which is supported by a real-time disaster management approach that continuously monitors performance of internal systems, threatening weather patterns and other natural events. This approach allows us to regularly reconfigure our network and place disaster response teams in motion as soon as we hear of an event requiring special resources.

PROGRESSIVE'S DIVERSIFIED BUSINESSES

The United Financial Casualty Company, Professional Liability Group, Midland Financial Group and Motor Carrier business units provide combinations of service and indemnity to businesses and individuals. Their primary products are collateral protection coverage and loan tracking for automobile lenders and financial institutions, directors and officers liability and fidelity coverage for American Bankers Association member community banks, nonstandard auto insurance, and underwriting and claim servicing for state involuntary residual market commercial and personal auto programs. We are the largest provider of collateral protection and D&O coverage to banks and the largest service carrier

for the involuntary market, though the market size for each declined in 1997.

On March 7, 1997, Progressive acquired Midland Financial Group, Inc. for about $50 million. Midland underwrites and markets nonstandard private passenger automobile insurance through approximately 3,700 independent agents across 11 states, primarily in the southern and western United States. During 1997, Progressive was able to effectively raise rates, improve claim handling and customer service, implement new measures and controls, consolidate offices and introduce objectives, performance evaluations and Gainsharing incentives to all Midland people.

The diversified businesses produced revenues and pre-tax profits of $248.7 million and $.7 million, respectively, in 1997, compared to $117.7 million and $24.3 million in 1996. During 1997, Midland contributed revenues of $84.1 million.

INVESTMENTS AND CAPITAL MANAGEMENT

Progressive, like all insurance companies, consists of two distinct enterprises: the operating insurance business and investment management. We recognize the challenge and the opportunity of having two businesses, requiring different expertise, resident in the same company. The success of each bears meaningfully on the results of the other, and the success of the whole.

The financial markets are dynamic, requiring flexibility and responsiveness from our professionals. Our portfolio is a financial institution that provides capital to other enterprises and is a business that lends and invests. We aspire to generate better after-tax portfolio returns than those available from comparable outside management at less cost without losses that curtail underwriting growth. Our approach to risk is conservative. A majority of the investment decisions are derived from "bottom up" rather than "top down" processes. We eschew formula investing. We endeavor to examine as broad a field of opportunity as possible and to take advantage of opportunities that are consistent with our available resources. The examination of every possibility is less important than the quality of our performance at the tasks we undertake.

Our professionals should be broad gauge and of the highest quality, able to compete effectively with their counterparts in other financial institutions. We hire the best raw talent we can find, then train and develop it. We pay above average compensation for good performance and to retain our best people. Stock options align their interests with shareholders. We re-evaluate our compensation approach annually to ensure that it is performance driven but does not motivate counterproductive behavior. We want our professionals to possess financial sophistication, thoroughness, experience and integrity. The exercise of good judgment is our best protection against loss.

We are building long-term business relationships by co-venturing with outside organizations and financial professionals that will enhance our investment program. These relationships, combined with our internal resources, form a virtual investment organization with more experience, expertise and access to opportunity than any organization we could assemble internally.

The Company's rapid growth and high margins produce expanding capital resources that support the operating business or are deployed in financial investments. Our highest priorities are to: manage the Company's capital to support all the insurance we can profitably underwrite, without issuing stock or losing our

investment-grade debt rating; improve our debt cost relative to peer companies; and repurchase stock more cost effectively than a passive strategy.

Our investment processes fall into five broad categories: stocks, bonds, alternative investments, capital management and acquisitions. All require quantitative skills and a knowledge of accounting, financial analysis, economics, financial markets and securities regulation. Common stock and the bond portfolio performance is compared to a sample of other managed portfolios on an annual basis.

Common Stock Investing Our holdings consist of a diversified portfolio of publicly-traded issues. Foreign investments are evaluated on an individual basis. A knowledge of the stock markets and trading, and the analysis of industries, business processes, historical performance and financial structure, in combination with the assessment of management capabilities, are the essential competencies of our stock investing.

Fixed-Income Investing The fixed-income holdings are comprised of investment-grade issues and BB rated securities, which do not exceed 5% of the portfolio. Allocations are made to market sectors, including foreign denominated securities on a fully hedged basis, with consideration for availability, degree of opportunity and diversification. Quantitative analysis of security cash flows, credit analysis, and knowledge of the bond markets, trading, derivatives, options, foreign exchange and risk management are the key skill sets.

Alternative Investing The commitment to alternative investments is influenced by the amount of capital in excess of our anticipated three-year need for additional surplus. These securities can reduce the dilution of our return on equity by producing returns on excess capital superior to the expected long-term return on common stocks. Funds, private equities, mezzanine investments, distressed securities and similar investments comprise this portfolio. These equity-like commitments are anticipated to bear returns that are higher than, and offer some diversification from, common stocks. A knowledge of specific documentary requirements and the ability to conduct detailed due diligence and negotiations are required in addition to competencies relevant to stock and bond investing.

Capital Management We believe that the optimal capital structure is defined by a debt to total capital ratio that maintains our A bond ratings. This structure provides for a low cost of debt capital and the availability of higher leverage to fund extraordinary needs without introducing a volatility to our stock price that would prejudice our multiple. We try to reduce our interest expense by issuing debt when interest rates are low. We repurchase stock on an opportunistic basis to reduce or eliminate the dilution of employee option exercises, improve the return on our stock and distribute excess capital to our shareholders. The required knowledge and skills include: the dynamics of our capital needs, rating agencies, capital markets, financing alternatives, regulatory filings, documentation and hedging.

Contributions of surplus to new operating subsidiaries are evaluated on the basis of the appropriateness of the expected return. Surplus exceeding one third of net premiums written is returned to the holding company when possible. Decisions regarding the underemployed leveraged equity retained in the holding company are driven by estimated growth in operating surplus requirements for three years, our ability to generate high returns on the excess above operating requirements, the possibility of strategic investments and the relative value of our stock in the context of a repurchase.

RISKS

Legislative and Regulatory Risk Insurance laws and regulations change continually. On January 1, 1997, California enacted mandatory insurance laws, requiring proof of insurance when renewing auto registrations. Several other reforms were approved, but, because of the legal process, may not be effective until the future. California passed Proposition 213, which eliminates pain and suffering awards for uninsured motorists, drunk drivers and fleeing felons. An appeal to the Supreme Court is likely. In addition, Louisiana passed its "no pay, no play" bill, forcing uninsured drivers to self insure their first $10,000 in both bodily injury and property damage; concurrently, companies must roll back rates 10% on the same coverage and offer uninsured motorists the option to elect coverage that waives their right to recover pain and suffering damages at a 20% discount. This case is still under appeal.

Unpredictable Underwriting Margin and Growth Rate Our strategy is to strive to achieve a 4% underwriting profit margin over the entire retention period of an insured. We cannot predict with precision the timing and pace of changes in underwriting margins, in retention nor in the rate of growth. We monitor closely to ensure that rates are adjusted promptly and adequately to obtain 4% margins over the entire retention period of a policyholder.

Pricing Risk We continue to learn how to price standard and preferred auto insurance, and to experiment

with new ways to price certain segments. We minimize the risk implicit in new pricing methodology by controlling volume in new programs and changing rates immediately when experience dictates. During 1997, Progressive lowered countrywide auto rates an average of .9%.

Homeowners Insurance This type of insurance has the potential to expose Progressive to catastrophes. Thus, there will be risk if our auto insurance market share objectives require us to offer it. In 1997, we began selling Travelers homeowners insurance to direct customers in Ohio. This effort has yet to produce any material results, but we continue to study the effects on our auto sales. Our current lack of a homeowners product in most states is also risky because many consumers prefer to buy all their insurance from one company. We do not intend to enter the homeowners market at this time, primarily to avoid the risk of disrupting our existing business rather than due to the risks inherent in the homeowners line.

Advertised Brand Consumer advertising and brand awareness require higher performance standards. We continually consider consumers' demands and appreciate their ability to make wise choices. In response, we are always looking for new and innovative ways to improve service at a lower cost.

Competitor Response Other insurers are reacting to Progressive's attempt to change consumers' auto insurance experience, but we cannot predict when and how their response will affect our growth and profitability. We monitor competitors and improve our products and services to assure that our consumer offerings are among the best in the industry. In addition, our people, with their knowledge of our operations along with their skills and talents, are being sought by companies with whom we compete. The property-casualty industry's excessive capitalization, measured by the net premiums written to surplus ratio of .9 to 1, the lowest ratio for the industry in 60 years, means competitors might accept lower returns on equity than they historically received.

THE FUTURE

Progressive is leading a wave of change in the United States' system for dealing with auto accident injuries and property damage. We are reducing auto accident victims' trauma and costs, improving how consumers feel about auto insurance and being rewarded for our leadership and commitment. Success so far encourages us to expand at a pace that tests our ability to provide the service we aspire to deliver.

We begin 1998 as we began all other years--excited, respectful of the challenge implicit in our objectives and strategy, humbled by our failures, proud of having responded to them and confident that our excellent people will continue to achieve superior results.

Much will be required to realize our Vision. At Progressive, it is always as if we are just beginning our business and so we look at a future that is brighter than ever.

We deeply appreciate the customers we are privileged to serve. Thank you for your business, and thanks especially to the more than 30,000 independent insurance agents who chose to do business with Progressive in 1997. We are particularly grateful for our shareholders' continued confidence. To the men and women who make Progressive a great company, thanks for all your contributions in 1997 and the promise you bring to our future.

Joy, Love and Peace

/s/ Peter B. Lewis

Peter B. Lewis
Chairman, President and Chief Executive Officer

BAD NEWS

One Sunday evening in June, a motorist reported that he and his passengers had suffered minor injuries when they were rear-ended by one of our policyholders. By Monday afternoon, our claim representative had established liability, inspected the damage, and settled all five injury claims. The motorist was thrilled to have been served so promptly. An attorney hoping to represent him wasn't. When he phoned us the next day, we could do no more than break the unhappy news.

IS GOOD NEWS

NO. 6

Linda Burnham, mixed media on lithograph and paper, 1997

[ARTWORK]

[ARTWORK]

LONG DISTANCE TICKLE

NO. 7

As Carolyn Cummings puts it, she was "tickled" by Progressive. No, it's not what you might think. She had just bought a new pickup truck when she saw our "cool television commercial." So she called 1 800 AUTO PRO(R) and talked to one of our insurance counselors. Carolyn was impressed by the information we provided, but what really stuck in her mind was the friendly service: "I could feel your counselor's smile through the phone, and it sounded like she was doing a job she enjoyed." Herself an experienced customer service representative, Carolyn not only bought a policy but applied for a job! "I like to give great customer service," she says, "and Progressive offers a great service." Today, Carolyn is a counselor in the AUTO PRO unit. She's "tickled to be part of this company."

Elena Sisto, casein, watercolor and gouache on paper, 1997

IMPRESSING A TROOPER

NO. 8

On his way home one evening, a Progressive claim representative happened upon a minor auto accident involving one of our policyholders. As he was inspecting the damage to the vehicle, the police arrived. "Well I guess since you're here, I can leave," joked one of the troopers. Later, the trooper asked if the claim representative wouldn't mind staying until the police investigation was finished. So our representative waited. What did the trooper want? Just some information and a business card. He was so impressed with our Immediate Response(R) claims service that he wanted to become a policyholder!

Jody Guralnick, oil with collage on panel, 1997

[ARTWORK]

[ARTWORK]

How long do you think an insurance company could survive if it informed a prospective client of a competitor who offered a slightly lower rate? Joseph Glose couldn't believe his ears when a Progressive insurance counselor quoted him our price and then told him about another insurer who could offer a lower rate: "They're in the Yellow Pages. Give them a call." Although Mr. Glose was impressed by our counselor's frankness, he couldn't resist contacting the other firm. But when they said they'd have to call him back with a quote and then never did, he returned to us. "You weren't the lowest," he says, "but I felt that you cared about me as a customer." Progressive has been caring, and in business, for over 60 years. Every day we prove to ourselves that honesty is the best policy.

NO. 9

HONESTY IS THE BEST POLICY

David Humphrey, oil on paper, 1997

NO. 10

ALL YOU NEED IS LOVE

When Donald Hoffman, an independent insurance agent writing for a competitor of ours, heard that one of his clients was badly injured in an auto accident with a Progressive policyholder, his heart sank. Mr. Hoffman was in Jackson, Michigan; his client was vacationing near Daytona Beach, Florida. There was little he could do in person. Yet he needn't have worried. Progressive's Daytona Beach claim representative Keith Pelkey and office branch manager Paul Love treated Mr. Hoffman's client as if she was one of our own. "The compassion and concern they showed were wonderful," says Mr. Hoffman. "They even came to the hospital to help my customer." Donald Hoffman has since decided to end his relationship with our competitor and to begin representing Progressive. In a crisis, you can count on Progressive to be there.

Amy Sillman, oil and gouache on wood, 1997

[ARTWORK]

[ARTWORK]

Join Progressive and see the world? That's what "Jane" did. Nearly three decades ago, Jane joined Progressive straight out of school. She started as an odd-jobs person but progressed to serving the company in almost all areas. Along the way she participated in every company retirement savings plan for which she was

NO. 11

TRAVELS WITH PROGRESSIVE

eligible. Progressive matched her contributions, and Jane, confident in the prospects of a company she served so loyally, invested 90% of her savings in Progressive stock. Today, her total account balance exceeds 16.5 times her original contributions. Thanks to the savings she accumulated during her travels with Progressive, Jane will be traveling the world.

Andy Yoder, watercolor, and pastel on paper, 1997

1997 FINANCIAL REVIEW

[STAR]

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Report of Coopers & Lybrand L.L.P., Independent Accountants

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS, THE PROGRESSIVE CORPORATION:

We have audited the accompanying consolidated balance sheets of The Progressive Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of The Progressive Corporation and subsidiaries' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Progressive Corporation and subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Cleveland, Ohio
January 27, 1998

CONSOLIDATED STATEMENTS OF INCOME

(millions-except per share amounts)

For the years ended December 31,	1997	1996	1995
NET PREMIUMS WRITTEN	$ 4,665.1	$ 3,441.7	$ 2,912.8
REVENUES			
Premiums earned	$ 4,189.5	$ 3,199.3	$ 2,727.2
Investment income	274.9	225.8	199.1
Net realized gains on security sales	98.5	7.1	46.7
Service revenues	45.3	46.2	38.9
Total revenues	4,608.2	3,478.4	3,011.9
EXPENSES			
Losses and loss adjustment expenses	2,967.5	2,236.1	1,943.8
Policy acquisition costs	607.8	482.6	459.6
Other underwriting expenses	336.0	208.5	167.2
Investment expenses	9.9	6.1	8.1
Service expenses	43.9	41.9	30.2
Interest expense	64.6	61.5	57.1
Total expenses	4,029.7	3,036.7	2,666.0
NET INCOME			
Income before income taxes	578.5	441.7	345.9
Provision for income taxes	178.5	128.0	95.4
Net income	$ 400.0	$ 313.7	$ 250.5
COMPUTATION OF EARNINGS PER SHARE			
Net income	$ 400.0	$ 313.7	$ 250.5
Less: Preferred Share dividends	--	(3.5)	(8.4)
Excess Preferred Share liquidation price over cost basis	--	(2.9)	--
Income available to common shareholders	$ 400.0	$ 307.3	$ 242.1
Basic:			
Average shares outstanding	72.0	71.6	71.8
Per share	$ 5.56	$ 4.29	$ 3.37
Diluted:			
Average shares outstanding	72.0	71.6	71.8
Net effect of dilutive stock options	3.3	2.6	2.4
Total equivalent shares	75.3	74.2	74.2
Per share	$ 5.31	$ 4.14	$ 3.26

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(millions)

December 31,	1997	1996

ASSETS		
Investments:		
Available-for-sale:		
Fixed maturities, at market (amortized cost: $3,836.8 and $3,384.1)	$ 3,891.4	$ 3,409.2
Equity securities, at market:		
Preferred stocks (cost: $333.9 and $333.8)	348.8	341.6
Common stocks (cost: $501.9 and $458.9)	620.8	540.1
Short-term investments, at amortized cost (market: $409.4 and $159.7)	409.4	159.7
Total investments	5,270.4	4,450.6
Cash	23.3	15.4
Accrued investment income	44.3	46.9
Premiums receivable, net of allowance for doubtful accounts of $32.4 and $23.2	1,160.8	820.8
Reinsurance recoverables	317.5	310.0
Prepaid reinsurance premiums	79.8	85.8
Deferred acquisition costs	259.6	200.1
Income taxes	116.5	62.1
Property and equipment, net of accumulated depreciation of $158.3 and $126.7	260.4	169.9
Other assets	27.0	22.3
Total assets	$ 7,559.6	$ 6,183.9
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unearned premiums	$ 1,980.1	$ 1,467.3
Loss and loss adjustment expense reserves	2,146.6	1,800.6
Policy cancellation reserve	34.7	43.3
Accounts payable and accrued expenses	486.4	420.1
Debt	775.9	775.7
Total liabilities	5,423.7	4,507.0
Shareholders' equity:		
Common Shares, $1.00 par value (authorized 200.0, issued 83.1, including treasury shares of 10.8 and 11.6)	72.3	71.5
Paid-in capital	412.8	381.8
Net unrealized appreciation on investment securities	122.3	74.0
Retained earnings	1,528.5	1,149.6
Total shareholders' equity	2,135.9	1,676.9
Total liabilities and shareholders' equity	$ 7,559.6	$ 6,183.9

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(millions-except per share amounts)

For the years ended December 31,	1997	1996	1995
PREFERRED SHARES, NO PAR VALUE			
Balance, Beginning of year	$ --	$ 83.6	$ 85.8
Redemption of shares	--	(77.9)	--
Treasury shares purchased-cost basis	--	(5.7)	(2.2)
Balance, End of year	$ --	$ --	$ 83.6
COMMON SHARES, $1.00 PAR VALUE			
Balance, Beginning of year	$ 71.5	$ 72.1	$ 71.2
Stock options exercised	.8	.4	.9
Treasury shares purchased	--	(1.0)	--
Balance, End of year	$ 72.3	$ 71.5	$ 72.1
PAID-IN CAPITAL			
Balance, Beginning of year	$ 381.8	$ 374.8	$ 357.1
Stock options exercised	13.3	6.5	9.2
Tax benefits on stock options exercised	17.6	5.9	8.5
Treasury shares purchased	(.2)	(5.4)	--

Other	.3	--	--
Balance, End of year	$ 412.8	$ 381.8	$ 374.8
NET UNREALIZED APPRECIATION (DEPRECIATION) ON INVESTMENT SECURITIES			
Balance, Beginning of year	$ 74.0	$ 51.1	$ (30.7)
Change in net unrealized appreciation (depreciation)	48.3	22.9	81.8
Balance, End of year	$ 122.3	$ 74.0	$ 51.1
RETAINED EARNINGS			
Balance, Beginning of year	$ 1,149.6	$ 894.2	$ 668.5
Net income	400.0	313.7	250.5
Cash dividends on Preferred Shares (93/8% annually)	--	(3.2)	(8.3)
Cash dividends on Common Shares ($.24, $.23 and $.22 per share)	(17.3)	(16.4)	(15.8)
Treasury shares purchased: Common Shares	(2.7)	(35.5)	--
Preferred Shares	--	(.3)	(.1)
Preferred Shares redeemed	--	(2.9)	--
Other, net	(1.1)	--	(.6)
Balance, End of year	$ 1,528.5	$ 1,149.6	$ 894.2
TOTAL SHAREHOLDERS' EQUITY	$ 2,135.9	$ 1,676.9	$ 1,475.8

There are 20.0 million Serial Preferred Shares authorized. In May 1991, the Company sold 4.0 million 93/8% Serial Preferred Shares, Series A; all remaining Preferred Shares were redeemed, at the Company's option, on May 31, 1996, at a cost of $25 per share, plus accrued and unpaid dividends through the redemption date.

There are 5.0 million Voting Preference Shares authorized; no such shares have been issued.

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions)

For the years ended December 31,	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 400.0	$ 313.7	$ 250.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	36.6	23.8	20.4
Net realized gains on security sales	(98.5)	(7.1)	(46.7)
Changes in:			
Unearned premiums	442.3	257.7	172.9
Loss and loss adjustment expense reserves	204.6	190.1	176.1
Accounts payable and accrued expenses	49.9	50.1	16.5
Policy cancellation reserve	(8.6)	2.5	(6.5)
Prepaid reinsurance premiums	33.3	(15.3)	12.7
Reinsurance recoverables	62.7	28.1	41.6
Premiums receivable	(310.9)	(170.9)	(107.5)
Deferred acquisition costs	(52.7)	(18.2)	(20.3)
Income taxes	(67.8)	(16.3)	.6
Other, net	43.8	14.0	20.3

Net cash provided by operating activities	734.7	652.2	530.6
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases:			
Held-to-maturity: fixed maturities	--	--	(.2)
Available-for-sale: fixed maturities	(6,764.3)	(4,447.2)	(2,575.5)
equity securities	(658.2)	(725.3)	(763.1)
Sales:			
Available-for-sale: fixed maturities	5,840.0	3,306.3	1,744.9
equity securities	581.7	537.7	593.6
Maturities, paydowns, calls and other:			
Held-to-maturity: fixed maturities	--	--	87.1
Available-for-sale: fixed maturities	578.0	465.7	497.2
equity securities	125.4	62.5	10.4
Net (purchases) sales of short-term investments	(248.6)	143.1	(23.7)
(Receivable) payable on securities	(2.0)	76.3	(52.0)
Purchases of property and equipment	(121.9)	(35.8)	(38.3)
Purchase of subsidiary, net of cash acquired	(48.0)	--	--
Net cash used in investing activities	(717.9)	(616.7)	(519.6)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of stock options	14.1	6.9	10.1
Tax benefits from exercise of stock options	17.6	5.9	8.5
Redemption of Preferred Shares	--	(80.8)	--
Proceeds from debt	--	99.6	--
Payments of debt	(20.4)	(.4)	(.4)
Dividends paid to shareholders	(17.3)	(19.6)	(24.1)
Acquisition of treasury shares	(2.9)	(47.9)	(2.3)
Net cash used in financing activities	(8.9)	(36.3)	(8.2)
Increase (decrease) in cash	7.9	(.8)	2.8
Cash, Beginning of year	15.4	16.2	13.4
Cash, End of year	$ 23.3	$ 15.4	$ 16.2

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1997, 1996 and 1995

1. REPORTING AND ACCOUNTING POLICIES

Nature of Operations The Progressive Corporation, an insurance holding company formed in 1965, owns 86 subsidiaries and has one mutual insurance company affiliate. The companies provide personal auto-mobile insurance and other specialty property-casualty insurance and related services sold primarily through independent insurance agents in the United States and Canada.

Basis of Consolidation and Reporting The accompanying consolidated financial statements include the accounts of The Progressive Corporation, its subsidiaries and affiliate (the Company). All of the subsidiaries and the affiliate are wholly owned or controlled. All significant intercompany accounts and transactions are eliminated in consolidation. The parent company's investments in subsidiaries exceeded their underlying book value at dates of acquisition by $17.2 million, of which $8.9 million remains. In the opinion of management, there is no present indication of diminished value in this amount.

Investments Held-to-maturity: fixed maturity securities are securities which the Company has the positive intent and ability to hold to maturity. The Company has no held-to-maturity securities. In November 1995, the Financial Accounting Standards Board (FASB) issued a Special Report entitled "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities." In accordance with the implementation guidance, the Company reclassified its held-to-maturity securities to available-for-sale, and marked the securities to market.

Available-for-sale: fixed maturity securities are securities held for indefinite periods of time, and may be used as a part of the Company's asset/liability strategy or sold in response to changes in interest rates, anticipated prepayments, risk/reward characteristics, liquidity needs or similar economic factors. These securities are carried at market value with the corresponding unrealized appreciation or depreciation, net of deferred income taxes, reflected in shareholders' equity. The asset-backed portfolio is accounted for under the retrospective method; prepayment assumptions are based on market expectations.

Available-for-sale: equity securities include common stocks and nonredeemable preferred stocks and are reported at quoted market values. Changes in the market values of these securities, net of deferred income taxes, are reflected as unrealized appreciation or depreciation in shareholders' equity. Changes in value due to foreign currency exchange are limited by foreign currency hedges; unhedged amounts are not material and recognized in income in the current period.

Trading securities are securities bought principally for the purpose of selling them in the near term and are reported at market value. Changes in market value are recognized in income in the current period. During the year, the net activity in trading securities was not material to the Company's financial position, cash flows and results of operations. The Company had no trading securities at December 31, 1997 and 1996.

Derivative instruments, as defined by Statement of Financial Accounting Standards (SFAS) 119, "Disclosures about Derivative Financial Instruments and Fair Value of Financial Instruments," include futures, options, short positions, forward positions, foreign currency forwards and interest rate swap agreements. Derivative instruments held or issued for purposes other than trading include derivative positions used for risk management of the available-for-sale portfolio and hedge positions. Derivative positions used for risk management are evaluated as to their effectiveness to modify the risk characteristics and enhance the yields of the available-for-sale portfolio. Hedges are evaluated on established criteria to determine the effectiveness of their correlation and ability to reduce risk of specific securities or transactions. Those instruments held or issued for risk management purposes are carried at market value in the appropriate available-for-sale portfolio based on the nature of the derivative instrument; changes in value of futures, options, foreign currency forwards and short positions are recorded to income in the current period, and changes in the value of forward positions and interest rate swaps are reflected in shareholders' equity as unrealized appreciation or depreciation, net of deferred income taxes. At disposition, changes in value of forward positions and interest rate swap agreements are recognized in income as "net realized gains or losses on security sales." Those instruments entered into for the purpose of hedging are carried at market value; changes in value follow the recognition of the asset being hedged. Gains or losses on closed hedge positions are recorded as basis adjustments to the cost of the assets hedged and amortized over their expected life. Unamortized amounts are recognized in income at the disposition of the assets hedged. Gains and losses on foreign currency hedges offset the foreign exchange gains and losses on the foreign equity portfolio. The net hedged gain or loss is not material and is recognized into income in the current period. Those instruments held or issued for trading purposes are carried at market value and include derivatives held or issued for the specific purpose of gen-erating profits and all other derivatives not meeting the criteria for derivatives held or issued for other than trading purposes; changes in value are recorded to income in the current period. During the year, the net activity in derivative instruments held or issued for trading purposes was not material to the Company's financial position, cash flows and results of operations; gains or losses during the year were recognized in the available-for-sale portfolio. See Note 2-Investments for further discussion.

Short-term investments include eurodollar deposits, commercial paper and other securities maturing within one year and are reported at amortized cost, which approximates market.

Investment securities are exposed to various risks such as interest rate, market and credit. Market values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect portfolio value in the near term.

Realized gains and losses on sales of securities are computed based on the first-in first-out method.

Property and Equipment Property and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the assets using accelerated methods for computers and straight line for all other fixed assets. Insurance Premiums and Receivables Insurance premiums written are earned primarily on a pro rata basis over the period of risk. For products where more than 50 percent cancellations are anticipated, premiums written and earned are reduced, though cancellations have not yet occurred.

The Company provides insurance and related services to individuals, lenders and motor carriers throughout the United States and in Canada, and offers a variety of payment plans to meet individual customer needs. Generally, premiums are collected in advance of providing risk coverage, minimizing the Company's exposure to credit risk.

Loss and Loss Adjustment Expense Reserves Loss reserves represent the estimated liability on claims reported to the Company, plus reserves for losses incurred but not yet reported. These estimates are reported net of amounts recoverable from salvage and subrogation. Loss adjustment expense reserves represent the estimated expenses required to settle these claims and losses. The methods of making estimates and establishing these reserves are reviewed regularly, and resulting adjustments are reflected in income currently. Such loss and loss adjustment expense reserves could be susceptible to significant change in the near term.

Reinsurance The Company's reinsurance transactions include premiums written under state-mandated involuntary plans for commercial vehicles (Commercial Auto Insurance Procedures--CAIP), for which the Company retains no indemnity risk (see Note 5--Reinsurance for further discussion). The remaining reinsurance arises from the Company seeking to reduce its loss exposure in its non-auto businesses. Prepaid reinsurance premiums are recognized on a pro rata basis over the period of risk.

Earnings Per Share In 1997, the Company adopted SFAS 128, "Earnings per Share," which requires disclosure of basic and diluted earnings per share, replacing primary and fully diluted earnings per share as previously reported. Per SFAS 128, all prior periods have been restated. Prior to the redemption of the Preferred Shares, net income was reduced by Preferred Share dividends earned during the period and the excess of the fair value over the cost basis of Preferred Shares repurchased for both the basic and diluted earnings per share calculations. Basic earnings per share are computed using the weighted average number of Common Shares outstanding and diluted earnings per share include common stock equivalents, including stock options, assumed outstanding during the period.

Deferred Acquisition Costs Deferred acquisition costs include commissions, premium taxes and other costs incurred in connection with writing business. These costs are deferred and amortized over the period in which the related premiums are earned. The Company considers anticipated investment income in determining the recoverability of these costs. There is no indication that these costs will not be fully recoverable in the near term. The Company does not defer advertising costs.

Service Revenues and Expenses Service revenues are earned on a pro rata basis over the term of the related policies; acquisition expenses are deferred and amortized over the period in which the related revenues are earned.

Supplemental Cash Flow Information Cash includes only bank demand deposits.

The Company paid income taxes of $166.9 million, $121.5 million and $75.5 million in 1997, 1996 and 1995, respectively. Total interest paid was $63.8 million for 1997, $60.3 million for 1996 and $56.6 million for 1995.

As discussed above, on December 1, 1995, the Company reclassified $248.4 million of its held-to-maturity securities to available-for-sale, recognizing $10.4 million in gross unrealized gains.

Stock Options The Company follows the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," to account for its stock option activity in the financial statements. The Company granted all options currently outstanding at an exercise price equal to the market price at the date of grant and, therefore, under APB 25, no compensation expense is recorded. The Company follows the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation."

New Accounting Standards In June 1997, the FASB issued SFAS 130, "Reporting Comprehensive Income," which requires transactions that are currently reported directly to shareholders' equity be reported in a financial statement that is displayed as prominently as other financial statements. SFAS 130, which is effective for fiscal years beginning after December 15, 1997, impacts disclosure requirements only. Therefore, SFAS 130 will have no impact on the Company's financial condition, cash flows or results of operations. For 1997, the Company would have reported comprehensive income of $447.6 million.

In June 1997, the FASB issued SFAS 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 supersedes SFAS 14, "Financial Reporting for Segments of a Business Enterprise," and requires companies to report financial and descriptive information about their reportable operating segments. The financial information is required to be reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments. SFAS 131 requires disclosure only and will have no impact on the Company's financial condition, cash flows or results of operations. This statement is effective for periods beginning after December 15, 1997, with interim information required the year following adoption. The Company is currently evaluating the required level of segment reporting.

In December 1997, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments," which is effective for fiscal years beginning after December 15, 1998. SOP 97-3 provides guidance for determining when companies should recognize a liability for guaranty fund and other insurance-related assessments, how to measure the liability, when offsets can be recovered and disclosures required. Prior to this statement, companies were permitted, but not required, to accrue for these potential assessments. The Company's practice has been to accrue for any potential exposure from known insolvencies. Therefore, this statement should have minimal impact on the Company's financial condition, cash flows or results of operations.

Estimates The Company is required to make estimates and assumptions when preparing its financial statements and accompanying notes in conformity with generally accepted accounting principles (GAAP). Actual results could differ from those estimates.

Reclassifications Certain amounts in the financial statements for prior periods were classified to conform with the 1997 presentation.

2. INVESTMENTS

The components of pretax investment income at December 31 were:

(millions)	1997	1996	1995

Held-to-maturity: fixed maturities	$ --	$ --	$ 15.8
Available-for-sale: fixed maturities	219.1	183.9	140.3
equity securities	24.6	27.7	23.9
Short-term investments	31.2	14.2	19.1
Investment income	274.9	225.8	199.1
Gross realized gains:			
Held-to-maturity: fixed maturities	--	--	.8
Available-for-sale: fixed maturities	56.9	23.9	49.0
equity securities	121.4	39.7	32.5
Short-term investments	--	--	.1
Gross realized losses:			
Held-to-maturity: fixed maturities	--	--	(.6)
Available-for-sale: fixed maturities	(36.9)	(29.6)	(22.3)
equity securities	(42.9)	(26.9)	(12.8)
Net realized gains on security sales	98.5	7.1	46.7
	$373.4	$232.9	$245.8

During 1997, the Company sold $178.4 million (proceeds of $200.8 million) of non-investment-grade commercial mortgage-backed securities, recognizing a net realized gain of $22.4 million and accounted for the transaction in accordance with SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

The composition of the investment portfolio at December 31 was:

(millions)	COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	MARKET VALUE
1997				
Available-for-sale:				
U.S. government obligations	$ 918.1	$ 2.1	$ (.6)	$ 919.6
State and local government obligations	1,231.8	32.6	(.2)	1,264.2
Foreign government obligations	57.6	1.0	(.1)	58.5
Corporate debt securities	89.2	.8	--	90.0
Asset-backed securities	1,501.4	23.9	(5.3)	1,520.0
Other debt securities	38.7	.7	(.3)	39.1
	3,836.8	61.1	(6.5)	3,891.4
Preferred stocks	333.9	15.1	(.2)	348.8
Common stocks	501.9	139.0	(20.1)	620.8
Short-term investments	409.4	--	--	409.4
	$ 5,082.0	$ 215.2	$ (26.8)	$ 5,270.4
1996				
Available-for-sale:				
U.S. government obligations	$ 830.1	$ 1.5	$ (2.5)	$ 829.1
State and local government obligations	1,314.7	24.0	(7.4)	1,331.3
Foreign government obligations	48.7	2.4	--	51.1
Corporate debt securities	48.6	2.2	--	50.8
Asset-backed securities	1,084.3	10.5	(6.5)	1,088.3
Other debt securities	57.7	.9	--	58.6
	3,384.1	41.5	(16.4)	3,409.2
Preferred stocks	333.8	8.5	(.7)	341.6
Common stocks	458.9	92.9	(11.7)	540.1
Short-term investments	159.7	--	--	159.7
	$ 4,336.5	$ 142.9	$ (28.8)	$ 4,450.6

Changes in net unrealized gains (losses) on fixed maturities and equity securities were:

(millions)	1997	1996	1995
Unrealized gains (losses):			
Held-to-maturity:fixed maturities	$ --	$ --	$ (6.2)
Available-for-sale: fixed maturities	$ 29.5	$ (18.3)	$ 86.1
equity securities	44.8	53.7	40.0
Deferred income taxes	(26.0)	(12.5)	(44.3)
	$ 48.3	$ 22.9	$ 81.8

The composition of fixed maturities by maturity at December 31, 1997 was:

(millions)	COST	MARKET VALUE
Less than one year	$ 375.6	$ 379.6
One to five years	2,039.7	2,066.6
Five to ten years	1,198.0	1,216.8
Ten years or greater	223.5	228.4
	$ 3,836.8	$ 3,891.4

Asset-backed securities are reported based upon their projected cash flows. All other securities which do not have a single maturity date are reported at average maturity.

At December 31, 1997, bonds in the principal amount of $67.3 million were on deposit with various regulatory agencies to meet statutory requirements. Securities with a market value of $25.9 million were held at December 31, 1997, by a bankruptcy remote subsidiary and are not available to the general creditors of the Company.

The components of derivative instruments held or issued for purposes other than trading were:

(millions)	market value/ carrying value at december 31,		contract/ notional value at december 31,	
	1997	1996	1997	1996
Forward and future positions:				
Assets	$ .8	$ (.3)	$ 13.7	$ 16.5
Liabilities	(.1)	.8	13.4	34.0
Foreign currency forward and future positions:				
Assets	(.7)	.5	50.9	62.0
Liabilities	1.7	1.0	67.2	145.4
	$ 1.7	$ 2.0	$ 145.2	$ 257.9

Derivative instruments classified as held or issued for purposes other than trading are used to manage the risks and enhance the yields of the available-for-sale portfolio. This is accomplished by modifying the basis, duration, interest rate or foreign currency characteristics of the portfolio or hedged securities. Derivative instruments may also be used for trading purposes. During 1997, net losses of $.7 million (gross gains of $9.9 million; gross losses of $10.6 million) in the trading portfolio were not material to the Company's results of operations and are included in the results of the available-for-sale portfolio. At December 31, 1997, the Company had short trading positions in foreign currency and commodity futures with net market values of $1.1 million and notional values of $64.4 million; the average market values for long and short positions in 1997 were $.5 million and $.4 million, respectively. At December 31, 1996, the Company did not have any open derivative trading positions.

For all derivative positions, net cash requirements are limited to changes in market values, which may vary based upon changes in interest rates, currency exchange rates and other factors. Exposure to credit risk is limited to the carrying value; unless otherwise noted, collateral is not required to support

the credit risk.

As of December 31, 1997, the Company had open investment funding commitments of $80.6 million. The Company had no uncollateralized lines or letters of credit as of December 31, 1997 or 1996.

3. STATUTORY FINANCIAL INFORMATION

At December 31, 1997, $234.3 million of consolidated statutory policyholders' surplus represents net admitted assets of the Company's insurance subsidiaries that are required to meet minimum statutory surplus requirements in the subsidiaries' states of domicile. The subsidiaries may be licensed in states, other than their states of domicile, which may have higher minimum statutory surplus requirements. Generally, the net admitted assets of insurance subsidiaries that, subject to other applicable insurance laws and regulations, are available for transfer to the parent company cannot include the net admitted assets required to meet the minimum statutory surplus requirements of the states where the subsidiaries are licensed.

During 1997, the insurance and other subsidiaries paid aggregate cash dividends of $108.1 million to the parent company. Based on the dividend laws currently in effect, the insurance subsidiaries may pay aggregate dividends of $191.9 million in 1998 without prior approval from regulatory authorities.

Statutory policyholders' surplus was $1,725.3 million and $1,292.4 million at December 31, 1997 and 1996, respectively. Statutory net income was $274.7 million, $277.9 million and $200.0 million for the years ended December 31, 1997, 1996 and 1995, respectively.

The Company's insurance subsidiaries, as part of their statutory filings, are required to disclose their risk-based capital (RBC) requirements. The National Association of Insurance Commissioners developed the RBC program to enable regulators to take appropriate and timely regulatory actions with respect to insurers that show signs of weak or deteriorating financial condition. RBC is a series of dynamic surplus-related formulas which contain a variety of factors that are applied to financial balances based on a degree of certain risks, such as asset, credit and underwriting risks.

4. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the loss and loss adjustment expense reserves, prepared in accordance with GAAP, is summarized as follows:

(millions)	1997	1996	1995
Balance at January 1	$ 1,800.6	$ 1,610.5	$ 1,434.4
Less reinsurance recoverables on unpaid losses	267.7	296.1	334.2
Net balance at January 1	1,532.9	1,314.4	1,100.2
Net reserves of subsidiary purchased	82.2	--	--
Incurred related to:			
Current year	3,070.8	2,341.9	2,000.4
Prior years	(103.3)	(105.8)	(56.6)
Total incurred	2,967.5	2,236.1	1,943.8
Paid related to:			
Current year	1,971.5	1,424.7	1,204.3
Prior years	743.6	592.9	525.3
Total paid	2,715.1	2,017.6	1,729.6
Net balance at December 31	1,867.5	1,532.9	1,314.4
Plus reinsurance recoverables on unpaid losses	279.1	267.7	296.1
Balance at December 31	$ 2,146.6	$ 1,800.6	$ 1,610.5

Because the Company is primarily an insurer of motor vehicles, it has limited exposure for environmental, product and general liability claims. The Company has established reserves for these exposures, in amounts which it believes to be adequate based on information currently known by it. The Company does not believe that these claims will have a material impact on the Company's liquidity, financial condition, cash flows or results of operations.

The Company writes auto insurance in the coastal states, which could be exposed to natural catastrophes, such as hurricanes. Although the occurrence of a major catastrophe could have a significant impact on the Company's quarterly results, the Company believes such an event would not be so material as to disrupt the overall normal operations of the Company. The Company is unable to predict if any such events will occur in the near term.

5. REINSURANCE

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies.

As of December 31, 1997 and 1996, 44% and 52%, respectively, of the "prepaid reinsurance premiums" and 60% and 68%, respectively, of the "reinsurance recoverables" relate to CAIP, for which the Company retains no indemnity risk.

The effect of reinsurance on premiums written and earned as of December 31 is as follows:

(millions)	1997		1996		1995	
	WRITTEN	EARNED	WRITTEN	EARNED	WRITTEN	EARNED
Direct premiums	$4,825.2	$4,382.9	$3,638.4	$3,380.7	$3,068.9	$2,895.9
Assumed	--	--	3.8	3.8	.1	.1
Ceded	(160.1)	(193.4)	(200.5)	(185.2)	(156.2)	(168.8)
Net premiums	$4,665.1	$4,189.5	$3,441.7	$3,199.3	$2,912.8	$2,727.2

Losses and loss adjustment expenses are net of reinsurance ceded of $150.8 million in 1997, $117.3 million in 1996 and $104.1 million in 1995.

6. INCOME TAXES

Significant components of the Company's income tax provision were as follows:

(millions)	1997	1996	1995
Current tax provision	$ 241.6	$ 163.9	$ 104.9
Deferred tax benefit	(63.1)	(35.9)	(9.5)
Total income tax provision	$ 178.5	$ 128.0	$ 95.4

The provision for income taxes in the accompanying consolidated statements of

income differs from the statutory rate as follows:

(millions)	1997		1996		1995	
Income before income taxes	$ 578.5		$ 441.7		$ 345.9	
Tax at statutory rate	$ 202.5	35%	$ 154.6	35%	$ 121.1	35%
Tax effect of:						
Exempt interest income	(19.6)	(3)	(21.1)	(5)	(21.9)	(6)
Dividends received deduction	(7.0)	(1)	(7.7)	(2)	(5.7)	(2)
Other items, net	2.6	--	2.2	1	1.9	1
	$ 178.5	31%	$ 128.0	29%	$ 95.4	28%

Deferred income taxes reflect the impact for financial statement reporting purposes of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At December 31, 1997 and 1996, the components of the net deferred tax assets were as follows:

(millions)	1997	1996
Deferred tax assets:		
Unearned premium reserve	$ 132.1	$ 96.7
Non-deductible accruals	37.0	38.8
Derivative instruments	6.9	2.8
Capitalized expenditures	12.7	8.3
Loss reserves	93.8	63.5
Other	12.3	2.8
Deferred tax liabilities:		
Deferred acquisition costs	(88.7)	(70.0)
Unrealized gains	(66.1)	(40.1)
Net deferred tax assets	$ 140.0	$ 102.8

The Company is able to demonstrate that the benefit of its deferred tax assets is fully realizable.

7. EMPLOYEE BENEFIT PLANS

Retirement Plans The Company has a two-tiered Retirement Security Program. The first tier is a defined contribution pension plan covering all employees who meet requirements as to age and length of service. Contributions vary from 1% to 5% of annual eligible compensation up to the Social Security wage base, based on years of eligible service. Company contributions were $5.1 million in 1997, $4.2 million in 1996 and $3.6 million in 1995.

The second tier is a long-term savings plan under which the Company matches, into a Company stock account, amounts contributed to the plan by an employee up to a maximum of 3% of the employee's eligible compensation. Company contributions were $7.3 million in 1997, $5.8 million in 1996 and $4.4 million 1995.

The Company has a defined benefit pension plan which covered employees hired before January 1, 1989, who met requirements as to age and length of service. This plan and future benefit accruals were frozen on December 31, 1993 and the Company recognized a $1.5 million gain; the benefits accruals through the date the plan was frozen were based on years of service and career average compensation up to the Social Security tax base. As of December 31, 1997, the Company had a pension asset of $2.0 million, compared to pension liabilities of $1.2 million and $1.5 million in 1996 and 1995, respectively. The Company recognized income of $.1 million, $0 and $.2 million in 1997, 1996 and 1995,

respectively. The Company's funding policy is to contribute annually the minimum amount required by the Employee Retirement Income Security Act of 1974, as amended. There is no past service liability requiring funding by the Company.

Postemployment Benefits The Company provides various postemployment benefits to former or inactive employees who meet eligibility requirements, their beneficiaries and covered dependents. Postemployment benefits include salary continuation and disability-related benefits including workers' compensation and, if elected, continuation of health care benefits. The Company's liability was $1.5 million at December 31, 1997 and 1996.

Postretirement Benefits The Company provides postretirement health and life insurance benefits to all employees who met requirements as to age and length of service at December 31, 1988. The Company recognized expenses of $.2 million in 1997, $.4 million in 1996 and $.3 million in 1995. The Company's funding policy is to contribute annually the maximum amount that can be deducted for Federal income tax purposes. Contributions are intended to provide not only for benefits attributed to services to date, but also for those expected to be earned in the future.

Deferred Compensation The Company maintains The Progressive Corporation Executive Deferred Compensation Plan (Deferral Plan), which permits eligible executives to defer receipt of some or all of their annual bonuses or other incentive awards. These deferred amounts are deemed invested in one or more investment funds, including Common Shares of the Company, offered under the Deferral Plan. All distributions from the Deferral Plan will be made in cash, except that distributions representing amounts deemed invested in Common Shares will be made in Common Shares. The Company reserved 300,000 Common Shares for issuance under the Deferral Plan. The Company established an irrevocable grantor trust to provide a source of funds to assist the Company in meeting its liabilities under the Deferral Plan. At December 31, 1997 and 1996, the trust held assets of $6.4 million and $2.6 million, respectively, of which $1.4 million and $.7 million were held in Common Shares, to cover its liabilities.

Incentive Compensation Plans The Company's 1989 Incentive Plan and 1995 Incentive Plan provide for the granting of stock options and other stock-based awards to key employees of the Company. The 1989 Incentive Plan has 6,500,000 shares authorized and the 1995 Incentive Plan has 5,000,000 shares authorized. Outside of the Incentive Plans, the Company registered 1,425,000 Common Shares relating to stock options granted to key employees of the Company. The nonqualified stock options granted are for periods up to ten years, become exercisable at various dates not earlier than six months after the date of grant, and remain exercisable for specified periods thereafter. All options granted have an exercise price equal to the market value of the Common Shares on the date of grant.

A summary of all stock option activity during the three years ended December 31 follows:

	1997		1996		1995	
OPTIONS OUTSTANDING	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Beginning of year	5,109,390	$ 28.09	4,943,324	$ 23.76	5,263,822	$ 19.49
Add (deduct):						
Granted	726,889	69.82	852,989	47.52	888,725	38.27
Exercised	(758,580)	17.44	(454,348)	14.89	(861,802)	11.54
Cancelled	(108,735)	41.07	(232,575)	32.95	(347,421)	26.51
End of year	4,968,964	$ 35.52	5,109,390	$ 28.09	4,943,324	$ 23.76
Exercisable, end of year	1,497,050	$ 15.53	1,561,428	$ 15.75	984,099	$ 12.61
Available, end of year	5,054,407		5,672,561		6,292,975	

The following options were outstanding or exercisable as of December 31, 1997:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING NUMBER OF SHARES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
$ 9 - 20	1,440,741	3.15 years	$ 14.74	1,440,741	$14.74
21 - 40	1,959,620	6.12 years	33.14	39,370	30.63
41 - 60	838,487	7.97 years	47.09	14,912	45.09
61 - 80	706,377	8.99 years	68.64	2,027	65.88
81 - 120	23,739	9.03 years	101.72	--	--
$ 9 - 120	4,968,964			1,497,050	

During 1996, the Company adopted the disclosure provisions of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 requires a fair-value based method of accounting for stock-based compensation. To calculate the fair value of the options awarded, the Company elected to use the Black-Scholes pricing model which produced a value of 43.2% for 1997 awards, 41.4% for 1996 awards and 42.8% for 1995 awards. The following assumptions were used to derive the ratio: a 7-year option term; an annualized volatility rate of .255 for 1997, .246 for 1996 and .275 for 1995; a risk-free rate of return of 6.63% for 1997, 6.69% for 1996 and 6.53% for 1995; and a dividend yield of .25% for 1997 and .5% for both 1996 and 1995. The Company elected to account for terminations when they occur rather than include an attrition factor into its model.

If compensation cost had been measured based on the fair-value based accounting method under SFAS 123, the following would have been disclosed for December 31:

(millions-except per share amounts)	1997	1996	1995
PRO FORMA			
Net income	$ 393.5	$ 310.3	$ 249.1
Earnings per share			
Basic	$ 5.46	$ 4.24	$ 3.35
Diluted	5.22	4.09	3.24

The effect of applying SFAS 123 in the current year is not representative of the effect on income for future years since each subsequent year will reflect expense for additional years' vesting.

The amounts charged to income for incentive compensation plans, including executive cash bonus programs for key members of management and a gainsharing program for all other employees, were $85.8 million in 1997, $45.3 million in 1996 and $33.9 million in 1995.

8. DEBT

During 1997, bank borrowings of $1.2 million were outstanding for three days at an average annual interest rate of 5.8%. Debt includes amounts the Company has borrowed and contributed to the capital of its insurance subsidiaries or borrowed for other long-term purposes.

Debt at December 31 consisted of:

(millions)	1997 COST	1997 MARKET VALUE	1996 COST	1996 MARKET VALUE
7.30% Notes, due 2006 (issued: $100.0, May 1996)	$ 99.7	$ 105.3	$ 99.6	$ 101.7
6.60% Notes, due 2004 (issued: $200.0, January 1994)	198.9	200.7	198.8	197.1
7% Notes, due 2013 (issued: $150.0, October 1993)	148.4	154.4	148.3	144.3
8 3/4% Notes, due 1999 (issued: $30.0, May 1989)	29.7	30.9	29.5	31.6

10% Notes, due 2000 (issued: $150.0, December 1988)	149.6	164.6	149.6	167.8
10 1/8% Subordinated Notes, due 2000 (issued: $150.0, December 1988)	149.6	164.6	149.5	168.4
Other debt	--	--	.4	.4
	$ 775.9	$ 820.5	$ 775.7	$ 811.3

All debt is noncallable with interest payable semiannually.

In May 1990, the Company entered into a revolving credit arrangement with National City Bank, which is reviewed by the bank annually. Under this agreement, the Company had the right to borrow up to $50.0 million. In February 1994, the Company reduced this revolving credit arrangement to $20.0 million and, in May 1997, further reduced it to $10.0 million. By selecting from available credit options, the Company may elect to pay interest at rates related to the London interbank offered rate, the bank's base rate or at a money market rate. A commitment fee is payable on any unused portion of the committed amount at the rate of .125 percent per annum. The Company had no borrowings under this arrangement at December 31, 1997 or 1996.

As of December 31, 1997, the Company was in compliance with its debt covenants.

Aggregate principal payments on debt outstanding at December 31, 1997, are $0 for 1998, $30.0 million for 1999, $300.0 million for 2000, $0 for 2001 and 2002 and $450.0 million thereafter.

9. SEGMENT INFORMATION

The operating segments of the Company are classified into Insurance and Service. Expense allocations are based on assumptions and estimates; stated segment operating results would change if different methods were applied. The Company does not allocate assets to segments.

For the years ended December 31,	1997		1996		1995	
	REVENUES	PRETAX PROFIT (LOSS)	REVENUES	PRETAX PROFIT (LOSS)	REVENUES	PRETAX PROFIT (LOSS)
Insurance operations	$ 4,189.5	$ 278.2	$ 3,199.3	$ 272.1	$ 2,727.2	$ 156.6
Service operations	45.3	1.4	46.2	4.3	38.9	8.7
Total operations	4,234.8	279.6	3,245.5	276.4	2,766.1	165.3
Total investment income	373.4	373.4	232.9	232.9	245.8	245.8
Interest expense and other costs	--	(74.5)	--	(67.6)	--	(65.2)
	$ 4,608.2	$ 578.5	$ 3,478.4	$ 441.7	$ 3,011.9	$ 345.9

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Information about specific valuation techniques and related fair value detail is provided in Note 1--Reporting and Accounting Policies, Note 2 -- Investments and Note 8-- Debt. Pursuant to SFAS 119, the cost and market value of the financial instruments as of December 31 are summarized as follows:

(millions)	1997		1996	
	COST	MARKET VALUE	COST	MARKET VALUE
Investments:				
Available-for-sale: fixed maturities	$3,836.8	$3,891.4	$3,384.1	$3,409.2
preferred stocks	333.9	348.8	333.8	341.6
common stocks	501.9	620.8	458.9	540.1
Short-term investments	409.4	409.4	159.7	159.7
Debt	(775.9)	(820.5)	(775.7)	(811.3)

11. LITIGATION

The Company is named as defendant in various lawsuits generally relating to its insurance operations. Numerous legal actions arise from claims made under insurance policies issued by the subsidiaries or in connection with previous reinsurance agreements. These actions were considered by the Company in establishing its loss and loss adjustment expense reserves. The Company believes that the ultimate disposition of these and other pending lawsuits will not materially impact the Company's financial position, cash flows or results of operations.

12. CONTRACTUAL COMMITMENTS

The Company has operating lease commitments and service agreements with terms greater than one year for equipment, office space and telecommunications services, some with options to renew at the end of the contract periods. The minimum commitments under such noncancelable leases and service contracts at December 31, 1997 are as follows (in millions): 1998--$36.2; 1999--$21.6; 2000--$13.2; 2001--$6.6; 2002--$3.8; and thereafter--$1.1. Total expense incurred by the Company for such purposes for 1997, 1996 and 1995 was $83.3 million, $57.5 million and $51.3 million, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The consolidated financial statements and the related notes on pages 36 through 48, together with the supplemental information on pages 53 through 59, should be read in conjunction with the following discussion of the consolidated financial condition and results of operations.

Financial Condition The Progressive Corporation is a holding company and does not have any revenue producing operations of its own. It receives cash through borrowings, equity sales, subsidiary dividends and other transactions, and may use the proceeds to contribute to the capital of its insurance subsidiaries in order to support premium growth, to repurchase its Common Shares and other outstanding securities, to retire its outstanding indebtedness, and for other business purposes. During 1997, the Company repurchased 30,193 of its Common Shares at a total cost of $2.9 million to offset obligations under various employee benefit plans.

During the three-year period ended December 31, 1997, the Company repurchased 1.0 million of its Common Shares at a total cost of $44.8 million (average $43.37 per share), .3 million of its 9 3/8% Serial Preferred Shares, Series A, at a total cost of $8.3 million (average $25.62 per share) and redeemed its remaining Preferred Shares at a total cost of $82.1 million ($25.00 per share). The Company also sold $100.0 million of Notes. During the same period, The Progressive Corporation received $50.8 million from its subsidiaries, net of capital contributions made to these subsidiaries. The regulatory restrictions on subsidiary dividends are described in Note 3 to the financial statements.

The Company has substantial capital resources and is unaware of any trends, events or circumstances that are reasonably likely to affect its capital resources in a material way. The Company also has available a $10.0 million revolving credit agreement. With its 27% debt to capital ratio, management believes the Company has sufficient borrowing capacity and other capital resources to support current and anticipated growth.

The Company's insurance operations create liquidity by collecting and investing premiums from new and renewal business in advance of paying claims. For the three years ended December 31, 1997, operations generated a positive cash flow of $1,917.5 million, and cash flow is expected to be positive in both the short-term and reasonably foreseeable future. The Company's substantial investment portfolio is highly liquid, consisting almost entirely of readily marketable securities.

In March 1997, the Company acquired Midland Financial Group, Inc. by

purchasing all of Midland's outstanding stock for about $50 million in cash. Midland underwrites and markets nonstandard private passenger automobile insurance through approximately 3,700 independent agents across 11 states, primarily in the southern and western United States. During 1997, Midland wrote $66.1 million of net premiums written.

Total capital expenditures for the three years ended December 31, 1997, aggregated $196.0 million. During 1997, the Company made substantial investments in property and equipment to support its infrastructure. In December 1997, the Company purchased approximately 72 acres in Tampa, Florida to construct a three-building regional call center. It is estimated that, when completed, this facility will consist of approximately 307,000 square feet of space. The cost of the project is currently estimated at $42.0 million and $8.3 million has been paid as of December 31, 1997. The project is scheduled to be completed by the end of 1998. In addition, in November 1997, the Company purchased 91 acres in Mayfield Village, Ohio to construct an office complex, near the site of its current corporate headquarters. This office complex is part of a five-year cooperative effort with Mayfield Village to develop over 300 acres -- Progressive would serve as the anchor corporate user with additional business users and recreational facilities on the site. The Company plans to construct three buildings containing a total of approximately 485,000 square feet, in 1998, and could build up to three additional buildings, containing about 500,000 square feet in total, in the future. The first phase of this project is estimated to cost $63.5 million. As of December 31, 1997, $5.3 million has been paid. The construction projects will be funded through operating cash flows or the issuance of new debt securities.

In July 1995, the Company began converting its computer systems to be year 2000 compliant (e.g. to recognize the difference between '99 and '00 as one year instead of negative 99 years). The Company has evaluated internal production systems, hardware and software products, facilities implications, and interactions with business partners in relation to year 2000 issues. As of December 31, 1997, the Company has completed approximately 70% of its efforts to bring the production systems in compliance, with substantially all production systems expected to be compliant by the end of 1998. The total cost to modify these existing production systems, which include both internal and external costs of programming, coding and testing, is estimated to be $6.4 million, of which $3.1 million has been expensed as of December 31, 1997. The Company is also in the process of replacing some of its systems during 1998 with new systems which, in addition to being year 2000 compliant, will add increased functionality to the Company. The total cost of these systems, which include both internal and external costs, is estimated to be $4.8 million, and the projects are expected to be substantially complete by the end of 1998. As of December 31, 1997, $2.4 million has been expensed for these systems. All costs are being funded through operating cash flow. The Company continually evaluates computer hardware and software upgrades and, therefore, many of the costs to replace existing items with year 2000 compliant upgrades are not likely to be incremental costs to the Company. It is estimated that the majority of these upgrades will be completed in 1998. During 1998, the Company will continue to contact its business partners (e.g. agents, banks, credit bureaus, motor vehicle departments, rating agencies, etc.) to determine their status of compliance and to assess the impact of noncompliance to the Company. The Company believes that it is taking the necessary measures to mitigate issues that may arise relating to the year 2000. During 1998, the Company will develop contingency plans relating to year 2000 compliance issues, either internal or external, that cannot be guaranteed to be timely completed. To the extent any additional issues arise, the Company will evaluate the impact on its financial condition, cash flows and results of operations and, if material, make the necessary disclosures.

Investments The Company invests in fixed-maturity, equity and short-term securities. The Company's investment strategy recognizes its need to maintain capital adequate to support its insurance operations. The Company evaluates the risk/reward trade-offs of investment opportunities, measuring their effects on stability, diversity, overall quality and liquidity of the investment portfolio.

The majority of the portfolio is invested in high-grade, fixed-maturity securities, of which short- and intermediate-term securities represented

$4,024.9 million, or 76.4%, at the end of 1997, compared to $3,275.6 million, or 73.6%, at the end of 1996. Long-term investment-grade securities, including greater than 10-year expected principal paydowns, were $143.4 million, or 2.7%, at the end of 1997, compared to $187.5 million, or 4.2%, at the end of 1996. Non-investment-grade fixed-maturity securities were $132.5 million, or 2.5%, at the end of 1997, compared $105.8 million, or 2.4%, at the end of 1996, and offer the Company higher returns and added diversification without a significant adverse effect on the stability and quality of the investment portfolio as a whole. Non-investment-grade securities may involve greater risks often related to creditworthiness, solvency and relative liquidity of the secondary trading market. The duration of the fixed-income portfolio was 3.3 years at December 31, 1997, compared to 3.2 years at December 31, 1996.

A portion of the investment portfolio was invested in marketable equity securities. Common stocks represented $620.8 million, or 11.8% of the portfolio, at the end of 1997, compared to $540.1 million, or 12.1%, a year earlier. Foreign equities, which may include stock index futures and foreign currency forwards, comprised $106.0 million of the common stock portfolio at the end of 1997, and $149.5 million at the end of 1996. As of December 31, 1997, the Company's Japanese equity holdings represented 1.5% of the common stock portfolio. The remainder of the equity portfolio of $348.8 million, or 6.6%, at the end of 1997, compared to $341.6 million, or 7.7%, at the end of 1996, was comprised of over 80% of fixed-rate preferred stocks with mechanisms that are expected to provide an opportunity to liquidate at par.

As of December 31, 1997, the Company's portfolio had $188.4 million in unrealized gains, compared to $114.1 million a year earlier. This increase in value was the result of increased stock prices as the S&P 500 index rose from 740.7 to 970.4 and decreased interest rate levels as evidenced by the .3% decrease in the 3-year treasury note.

The weighted average fully taxable equivalent book yield of the portfolio was 6.6%, 6.7% and 6.9% for the years ended December 31, 1997, 1996 and 1995, respectively.

As of December 31, 1997, the Company held $1,520.0 million of asset-backed securities, which represented 28.8% of the total investment portfolio. The portfolio included collateralized mortgage obligations (CMO) and commercial mortgage-backed obligations (CMB) totaling $283.2 million and $776.7 million, respectively. The remainder of the asset-backed portfolio was invested primarily in auto loan and other asset-backed securities. As of December 31, 1997, the CMO portfolio included busted planned amortization class bonds and sequential bonds representing 94.1% of the CMO portfolio ($266.4 million) with an average life of 3.0 years, and planned amortization class bonds representing 5.9% of the CMO portfolio ($16.8 million) with an average life of .5 years. At December 31, 1997, the CMO portfolio had a weighted average Moody's or Standard & Poor's rating of AAA and the CMB portfolio had an average life of 7.4 years and a weighted average Moody's or Standard & Poor's rating of AA. At December 31, 1997, the CMO and CMB portfolios had unrealized gains of $1.6 million and $14.0 million, respectively. The single largest unrealized loss in any individual CMO security was $.2 million and in any CMB security was $1.1 million, at December 31, 1997. The CMB portfolio includes $149.6 million of CMB interest-only certificates, which had an average life of 6.9 years and a weighted average Moody's or Standard & Poor's rating of AAA at December 31, 1997. Both the CMO and CMB portfolios are highly liquid with readily available quotes and contain no residual interests. During 1997, the Company sold $178.4 million (proceeds of $200.8 million) of non-investment-grade CMB securities to a third- party purchaser. The purchaser subsequently transferred the securities to a trust as collateral in a resecuritized debt offering. The transaction was accounted for as a sale under Statement of Financial Accounting Standards (SFAS) 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," resulting in a net gain of $22.4 million. A bankruptcy remote subsidiary of the Company acquired $22.8 million (market value of $25.9 million) of the resecuritized debt. This portion of the transaction was not accounted for as a sale in accordance with SFAS 125.

Investments in the Company's portfolio have varying degrees of risk. The primary market risk exposure to the fixed-income portfolio is interest rate risk, which is limited by managing duration to a defined range of 1.8 to 5 years. The distribution of maturities and convexity are monitored on a regular basis. Common stocks and similar investments, which generally have greater risk and volatility of market value, are limited to a target of 15%, with a range of 0 to 25%. Market values, along with industry and sector concentrations of common stocks and similar investments, are monitored daily. Exposure to foreign currency exchange risk is limited by Company restrictions and is monitored

regularly. Exposures are evaluated individually and as a whole, considering the effects of cross correlation. For the quantitative market risk disclosures, see page 54. The Company regularly examines its portfolio for evidence of impairment. In such cases, changes in market value are evaluated to determine the extent to which such changes are attributable to: (i) interest rates, (ii) market-related factors other than interest rates and (iii) financial conditions, business prospects and other fundamental factors specific to the issuer. Declines attributable to issuer fundamentals are reviewed in further detail. Available evidence is considered to estimate the realizable value of the investment. When a security in the Company's investment portfolio has a decline in market value which is other than temporary, the Company is required by generally accepted accounting principles (GAAP) to reduce the carrying value of such security to its net realizable value.

Derivative instruments are primarily used to manage the risks and enhance the returns of the available-for-sale portfolio. This is accomplished

by modifying the basis, duration, interest rate or foreign currency characteristics of the portfolio or hedged securities. Derivative instruments may also be used for trading purposes. During 1997, net activity in the trading portfolio was not material to the Company's financial position, cash flows and results of operations. Net cash requirements of derivative instruments are limited to changes in market values which may vary based upon changes in interest rates and other factors. Exposure to credit risk is limited to the carrying value; collateral is not required to support the credit risk. The Company has stringent restrictions on the amount of open positions in the trading portfolios, limiting exposure to levels management deems acceptable. At December 31, 1997, trading positions had a net market value of $1.1 million; at December 31, 1996, there were no trading positions.

Results of Operations Operating income, which excludes net realized gains and losses from security sales and one-time items, was $336.0 million, or $4.46 per share, in 1997, $309.1 million, or $4.12 per share, in 1996 and $220.1 million, or $2.85 per share, in 1995. The GAAP combined ratio was 93.4 in 1997, 91.5 in 1996 and 94.3 in 1995.

Direct premiums written increased 33% to $4,825.2 million in 1997, compared to $3,638.4 million in 1996 and $3,068.9 million in 1995. Net premiums written increased 36% to $4,665.1 million in 1997, compared to $3,441.7 million in 1996 and $2,912.8 million in 1995. The difference between direct and net premiums written is largely attributable to premiums written under state-mandated involuntary Commercial Auto Insurance Procedures (CAIP), for which the Company retains no indemnity risk, of $78.4 million in 1997, $99.5 million in 1996 and $105.4 million in 1995. The Company provided policy and claim processing services to 27 state CAIPs in 1997 and 1996, compared to 28 in 1995. Premiums earned, which are a function of the amount of premiums written in the current and prior periods, increased 31% in 1997, compared to 17% in 1996 and 24% in 1995.

In the Company's core business units, which write insurance for private passenger automobiles, recreational vehicles and small fleets of commercial vehicles, net premiums written grew 33%, 19% and 21% in 1997, 1996 and 1995, respectively, reflecting an increase in unit sales driven by the Company's competitive rates. The Company decreased rates an average of .9% in 1997, compared to rate increases of 2.5% and 6.5% in 1996 and 1995, respectively. The Company continues to write, through multiple distribution methods, standard and preferred risks, which represented between 20% and 25% of total 1997 core business volume. In 1997, the Company used rating criteria based partially upon consumer financial responsibility. This approach has been approved by numerous regulators and is in use in the 31 states that represent 80% of the core business units' volume; the Company expects to complete rollout of this approach into the remaining states where it can be offered in 1998. The Company believes that its use of financial responsibility in auto insurance rating produces a more accurate distribution of losses among consumers and, therefore, produces more accurate pricing resulting in lower rates for most consumers. In addition, in order to encourage writing more standard and preferred risks and to improve customer retention, the Company in 1996 adjusted its contingent cash incentive compensation program for employees to reflect the increase in value created by adding new customers. The Company believes that growing the numbers of policyholders, particularly standard and preferred risks with their higher retention rates, builds intrinsic value because renewals are more profitable

than first year business. The drive to add customers faster resulted in more spending to promote the Progressive brand and to hire and develop more claim adjusters and customer service representatives, and the Company expects this to continue at least in the near term. These costs, along with lower margins on first year business, are likely to bring profit margins more in line with the Company's objective of achieving a 4% underwriting profit margin over the entire retention period of an insured. In 1997, the core business units generated an underwriting profit margin of 7%, compared to 8% in 1996 and 5% in 1995.

Claim costs, the Company's most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses. These costs include a loss estimate for future assignments and assessments, based on current business, under state-mandated involuntary automobile programs. Claims costs are influenced by inflation and loss severity and frequency, the impact of which is mitigated by adequate pricing. Increases in the rate of inflation increase loss payments, which are made after premiums are established. Accordingly, anticipated rates of inflation are taken into account when the Company establishes premium rates and loss reserves. Claim costs, expressed as a percentage of premiums earned, were 71% in 1997, compared to 70% in 1996 and 71% in 1995.

The Company writes directors and officers and other professional liability coverage for community banks and credit unions and, therefore, could potentially be exposed to liability for errors made by these institutions relating to the year 2000 conversion. To minimize its risk, in October 1997, the Company began including year 2000 exclusions in all new and renewal policies for commercial banks (representing approximately 70% of all policies written since that date) which have multi-year terms that extend beyond December 31, 1999. The Company is not currently aware of any other company in the industry that is including such exclusion provisions or increasing their premiums to cover potential exposure on year 2000 compliance issues. As a regulated industry, financial institutions are under pressure from government regulatory agencies and other interested parties to ensure they achieve readiness for the year 2000. The Company is monitoring its customers' compliance efforts and believes that substantially all such customers are pursuing plans to achieve year 2000 compliance. It is currently unknown whether the financial institutions will be able to completely avoid errors relating to year 2000 compliance and the Company is unable to predict to what extent such financial institutions will incur losses as a result of noncompliance and whether their directors and officers will be subject to individual liability for such noncompliance. At December 31, 1997, approximately 200 professional liability policies, or about 17% of all policies, do not contain year 2000 exclusion provisions and extend into

the year 2000. In the event of a claim, applicable factual and coverage issues would have to be resolved. Based on information currently available and management's best estimate, the Company does not believe that it will incur any costs that will have a material impact on the Company's financial condition, cash flows or results of operations.

Because the Company is primarily an insurer of motor vehicles, it has limited exposure for environmental, product and general liability claims. The Company has established reserves for these exposures, in amounts which it believes to be adequate based on information currently known by it. Management does not believe that these claims will have a material impact on the Company's liquidity, financial condition, cash flows or results of operations.

Policy acquisition and other underwriting expenses as a percentage of premiums earned were 23% in 1997, compared to 22% in 1996 and 23% in 1995. In 1997, the Company incurred additional expenses to support its infrastructure and to hire and train people in anticipation of growth. The Company also introduced its advertising campaign to 13 states during 1997, bringing the total number of states where the Company advertises to 19 (40 markets).

Recurring investment income (interest and dividends) increased 22% to $274.9 million in 1997, compared to $225.8 million in 1996 and $199.1 million in 1995, primarily due to an increase in the size of the investment portfolio. Net realized gains on security sales were $98.5 million in 1997, $7.1 million in 1996 and $46.7 million in 1995. Investment expenses were $9.9 million in 1997,

compared to $6.1 million in 1996 and $8.1 million in 1995; in 1997, the Company purchased a new portfolio management system and incurred expenses related to the sale of the commercial mortgage-backed securities.

Safe Harbor statement under the Private Securities Litigation Reform Act of 1995: Except for historical information, the matters discussed in this annual report are forward-looking statements that are subject to certain risks and uncertainties that could cause the actual results to differ materially from those projected, including acceptance of the products, pricing competition, market conditions and other risks detailed from time to time in the Company's SEC reports. The Company assumes no obligation to update the information in this annual report.

ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSES (LAE) DEVELOPMENT
(not covered by report of independent accountants)

(millions) For the years ended December 31,	1987	1988	1989	1990	1991	1992	1993	1994[3]	1995	1996	1997
Loss and LAE reserves(1)	$ 471.0	$ 651.0	$ 748.6	$ 791.6	$ 861.5	$ 956.4	$1,012.4	$1,098.7	$1,314.4	$1,532.9	$1,867.5
Re-estimated reserves as of:											
One year later	446.6	610.3	685.4	748.8	810.0	857.9	869.9	1,042.1	1,208.6	1,429.6	
Two years later	422.2	573.4	677.9	726.5	771.9	765.5	837.8	991.7	1,149.5		
Three years later	402.4	581.3	668.6	712.7	718.7	737.4	811.3	961.2			
Four years later	403.9	575.1	667.1	683.7	700.1	725.2	794.6				
Five years later	399.6	578.4	654.7	666.3	695.1	717.3					
Six years later	400.2	582.2	647.1	664.8	692.6						
Seven years later	408.5	574.3	645.7	664.5							
Eight years later	408.1	574.4	645.4								
Nine years later	407.8	575.0									
Ten years later	408.5										
Cumulative redundancy	$ 62.5	$ 76.0	$ 103.2	$ 127.1	$ 168.9	$ 239.1	$ 217.8	$ 137.5	$ 164.9	$ 103.3	
Percentage(2)	13.3	11.7	13.8	16.1	19.6	25.0	21.5	12.5	12.6	6.7	

The chart represents the development of the property-casualty loss and LAE reserves for 1987 through 1996. The reserves are re-estimated based on experience as of the end of each succeeding year and are increased or decreased as more information becomes known about the frequency and severity of claims for individual years. The cumulative redundancy represents the aggregate change in the estimates over all prior years.

(1) Represents loss and LAE reserves net of reinsurance recoverables on unpaid losses at the balance sheet date.

(2) Cumulative redundancy / loss and LAE reserves.

(3) In 1994, based on a review of its total loss reserves, the Company eliminated its $71.0 million "supplemental reserve."

DIRECT PREMIUMS WRITTEN BY STATE
(not covered by report of independent accountants)

(millions)	1997	1996	1995	1994	1993

Florida	$ 663.0	13.7%	$ 467.4	12.9%	$ 421.9	13.7%	$ 369.9	14.0%	$ 265.6	13.5%
Texas	509.4	10.6	349.9	9.6	313.2	10.2	246.4	9.3	146.6	7.4
New York	446.3	9.2	358.0	9.8	225.6	7.4	195.2	7.4	170.4	8.7
Ohio	404.3	8.4	340.8	9.4	284.1	9.3	232.0	8.8	175.9	8.9
California	291.7	6.0	171.6	4.7	126.6	4.1	126.8	4.8	80.2	4.1
Georgia	261.9	5.4	212.1	5.8	155.1	5.1	129.7	4.9	120.0	6.1
Pennsylvania	248.3	5.1	201.3	5.5	184.9	6.0	161.2	6.1	113.0	5.8
All other	2,000.3	41.6	1,537.3	42.3	1,357.5	44.2	1,183.9	44.7	894.7	45.5
Total	$ 4,825.2	100.0%	$ 3,638.4	100.0%	$ 3,068.9	100.0%	$ 2,645.1	100.0%	$ 1,966.4	100.0%

QUANTITATIVE MARKET RISK DISCLOSURES
(not covered by report of independent accountants)

Quantitative market risk disclosures are only presented for market risk categories when risk is considered material. Materiality is determined based on the fair value of the financial instruments at December 31, 1997, and the potential for near term losses from reasonably possible near term changes in market rates or prices.

OTHER THAN TRADING FINANCIAL INSTRUMENTS

Financial instruments subject to interest rate risk as of December 31, 1997 were:

(millions)	market value				
	-200 bps CHANGE	-100 bps CHANGE	ACTUAL	+100 bps CHANGE	+200 bps CHANGE
U.S. government obligations	$ 1,000.9	$ 959.2	$ 919.6	$ 881.2	$ 846.9
State and local government obligations	1,322.5	1,297.4	1,264.2	1,230.0	1,197.0
Asset-backed securities	1,635.7	1,581.4	1,520.1	1,471.7	1,414.9
Other debt securities	197.1	192.4	187.6	183.1	178.7
Preferred stocks	374.3	361.2	348.8	336.9	325.4
Short-term investments	409.4	409.4	409.4	409.4	409.4
Forward positions-liabilities	(2.2)	(1.1)	(0.1)	.8	1.7
	$ 4,937.7	$ 4,799.9	$ 4,649.6	$ 4,513.1	$ 4,374.0

Exposure to risk is represented in terms of changes in fair value due to selected hypothetical movements in market rates. Bonds and preferred stocks are individually priced to yield to the worst case scenario. State and local government obligations, including lease deals and super sinkers, are assumed to hold their prepayment patterns. Asset-backed securities are priced assuming deal specific prepayment scenarios, considering the deal structure, prepayment penalties, yield maintenance agreements and the underlying collateral. Over 80% of the preferred stocks have mechanisms that are expected to provide an opportunity to liquidate at par.

Financial instruments subject to equity market risk as of December 31, 1997 were:

(millions)		HYPOTHETICAL MARKET CHANGES	
	MARKET VALUE	+10%	-10%
Common stocks	$ 620.8	$ 675.8	$ 565.8

The model represents the estimated value of the Company's common stock portfolio given a + (-) 10% change in the market, based on the common stock portfolio's weighted average beta of .84. The beta is derived from recent historical experience, using the S&P 500 as the market surrogate. The historical relationship of the common stock portfolio's beta to the S&P 500 is not necessarily indicative of future correlation, as individual company or industry factors may effect price movement. Betas are not available for all securities. In such cases, the change in market value reflects a direct + (-) 10% change; the number of securities without betas is less than 25%. The common stock portfolio includes stock index futures with a market value of $.8 million.

Financial instruments subject to foreign currency risk as of December 31, 1997 were:

(millions)	MARKET VALUE	NOTIONAL VALUE	HYPOTHETICAL GAIN (LOSS)
Canadian debt investments	$ 58.5	N/A	$ 5.8
Foreign equity investments	121.0	N/A	12.1
Foreign currency forwards-assets	(0.7)	50.9	5.1
Foreign currency forwards-liabilities	1.7	(67.2)	(6.7)
	$ 180.5		$ 16.3

N/A = not applicable; notional value pertains only to derivative instruments.

The foreign equity portfolio, which may include stock index futures, foreign currency forwards and foreign preferred stocks, is comprised of numerous currencies, none of which are individually material. Therefore, sensitivity results are presented by class of financial instrument. The model calculates a gain or loss in market value if the U.S. dollar depreciates by 10% to the respective currency. The model does not attempt to reflect the correlation of multiple currencies to changes in the U.S. dollar. At December 31, 1997, the Company did not have any cross currency exposures.

TRADING FINANCIAL INSTRUMENTS

At December 31, 1997, the Company had short trading positions with a market value of $1.1 million. Exposure to loss from open trading positions is not material individually or in the aggregate. The Company did not have any trading securities as of December 31, 1997.

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QUARTERLY FINANCIAL AND COMMON SHARE DATA
(not covered by report of independent accountants)

(millions-except per share amounts)

		NET INCOME		OPERATING INCOME(1)		STOCK PRICE(4)			
QUARTER	OPERATING REVENUES	TOTAL(2)	PER SHARE(3)	TOTAL	PER SHARE(3)	HIGH-LOW	CLOSE	RATE OF RETURN(5)	DIVIDENDS PER SHARE
1997									
1	$ 905.7	$ 76.5	$ 1.02	$ 78.6	$ 1.05	$ 73 5/8 - 63 7/8	$ 63 7/8		$ .060
2	1,020.9	102.1	1.36	82.8	1.10	87 3/8 - 61 1/2	87		.060
3	1,090.1	116.2	1.54	89.3	1.18	111 7/8 - 86 1/2	107 1/8		.060
4	1,218.1	105.3	1.39	85.3	1.13	120 7/8 - 99	119 7/8		.060
	$ 4,234.8	$ 400.0	$ 5.31	$ 336.0	$ 4.46	$120 7/8 - 61 1/2	$ 1197/8	78.4%	$ .240

1996

1	$ 741.4	$ 63.3	$ .82	$ 60.2	$ .78	$ 51 1/4 - 43 1/2	$ 44 5/8		$ .055
2	794.9	78.4	1.01	78.5	1.05	48 7/8 - 40 3/8	46 1/4		.055
3	840.3	80.3	1.08	82.5	1.11	58 1/2 - 43 1/8	57 1/4		.060
4	868.9	91.7	1.23	87.9	1.18	72 1/4 - 55 3/8	67 3/8		.060
	$ 3,245.5	$ 313.7	$ 4.14	$ 309.1	$ 4.12	$ 72 1/4 - 40 3/8	$ 67 3/8	38.5%	$ .230
1995									
1	$ 633.6	$ 60.7	$ .79	$ 50.7	$ .66	$ 42 1/8 - 34 3/4	$ 40 5/8		$ .055
2	687.4	60.8	.79	46.4	.60	41 7/8 - 37 1/8	38 3/8		.055
3	719.0	62.5	.81	59.0	.77	48 - 37 3/4	44 3/4		.055
4	726.1	66.5	.86	64.0	.83	49 1/2 - 41 1/2	48 7/8		.055
	$ 2,766.1	$ 250.5	$ 3.26	$ 220.1	$ 2.85	$ 49 1/2 - 34 3/4	$ 48 7/8	40.4%	$ .220

(1) Represents net income less realized gains and losses on security sales and one-time items.

(2) The sum may not equal the total due to rounding in the individual periods. Each period is properly stated.

(3) Presented on a diluted basis. The sum may not equal the total because the average equivalent shares differ in the periods. In 1997, the Company adopted SFAS 128, "Earnings Per Share," and, as a result, restated prior periods per share amounts, if applicable. See Note 1-Reporting and Accounting Policies for further discussion.

(4) Prices as reported on the consolidated transaction reporting system. The Company's Common Shares are listed on the New York Stock Exchange.

(5) Represents annual rate of return, including quarterly dividend reinvestment.

TEN YEAR SUMMARY-FINANCIAL HIGHLIGHTS
(not covered by report of independent accountants)

(millions-except per share amounts and number of people employed)

	1997	1996
INSURANCE COMPANIES SELECTED FINANCIAL INFORMATION AND OPERATING STATISTICS-STATUTORY BASIS		
Reserves:		
Loss and loss adjustment expense(1)	$ 1,867.5	$ 1,532.9
Unearned premiums	1,901.9	1,382.9
Policyholders' surplus(1)	1,725.3	1,292.4
Ratios:		
Net premiums written to policyholders' surplus	2.7	2.7
Loss and loss adjustment expense reserves to policyholders' surplus	1.1	1.2
Loss and loss adjustment expense	71.1	70.2
Underwriting expense	20.7	19.8
Statutory combined ratio	91.8	90.0
SELECTED CONSOLIDATED FINANCIAL INFORMATION-GAAP BASIS		
Total revenues	$ 4,608.2	$ 3,478.4
Total assets	7,559.6	6,183.9
Total shareholders' equity(2)	2,135.9	1,676.9
Common Shares outstanding	72.3	71.5
Common Share price		
High	$120 7/8	$72 1/4
Low	61 1/2	40 3/8
Close(3)	119 7/8	67 3/8
Market capitalization		
Book value per Common Share(2)	$ 29.54	$ 23.45
Return on average common shareholders' equity(4)	20.9%	20.5%
Debt outstanding	$ 775.9	$ 775.7
Ratio of debt to capital	27%	32%
GAAP underwriting margin(2)	6.6	8.5
Number of people employed	14,126	9,557

(1) During 1994, the Company began accruing salvage and subrogation recoverables.

(2) In 1994, the $71.0 million "supplemental reserve" was eliminated, increasing book value per share $.65, underwriting profit margin 3.2% and shareholders' equity $46.2 million.

(3) Represents the closing price at December 31.

(4) Net income minus preferred share dividends / average common shareholders' equity.

All share and per share amounts were adjusted for the December 1992, 3 for 1 stock split.

The Progressive Corporation and Subsidiaries

1995	1994	1993	1992	1991	1990	1989	1988
$ 1,314.4	$ 1,100.2	$ 1,053.7	$ 994.7	$ 901.7	$ 827.4	$ 787.7	$ 685.5
1,140.4	954.8	688.9	538.5	513.6	474.1	467.6	505.0
1,055.1	945.1	701.9	658.3	676.7	636.7	578.1	495.0
2.8	2.6	2.6	2.2	2.0	1.9	2.0	2.6
1.2	1.2	1.5	1.5	1.3	1.3	1.4	1.4
71.6	64.2	62.6	68.3	65.7	62.1	65.9	62.9
21.4	22.4	25.4	29.8	33.5	31.1	31.4	33.2
93.0	86.6	88.0	98.1	99.2	93.2	97.3	96.1
$ 3,011.9	$ 2,415.3	$ 1,954.8	$ 1,738.9	$ 1,493.1	$ 1,376.2	$ 1,392.7	$ 1,355.8
5,352.5	4,675.1	4,011.3	3,440.9	3,317.2	2,912.4	2,643.7	2,316.3
1,475.8	1,151.9	997.9	629.0	465.7	408.5	435.2	417.2
72.1	71.2	72.1	67.1	63.3	69.3	76.2	80.7
$ 49 1/2	$ 40 1/2	$ 46 1/8	$ 29 3/8	$ 20 5/8	$ 18 3/4	$ 14 1/2	$ 10 3/4
34 3/4	27 3/4	26 5/8	14 3/4	15	11	7 1/2	7 1/4
48 7/8	35	40 1/2	29 1/8	18	17 1/8	127/8	7 5/8
$ 3,523.9	$ 2,492.0	$ 2,920.1	$ 1,954.3	$ 1,139.4	$ 1,186.8	$ 981.1	$ 615.3
$ 19.31	$ 14.97	$ 12.62	$ 7.94	$ 5.83	$ 5.89	$ 5.71	$ 5.17
19.6%	27.4%	36.0%	34.7%	6.7%	21.5%	17.4%	25.9%
$ 675.9	$ 675.6	$ 477.1	$ 568.5	$ 644.0	$ 644.4	$ 645.9	$ 479.2
31%	37%	32%	47%	58%	61%	60%	53%
5.7	11.5	10.7	3.5	(3.7)	1.0	(1.2)	2.9
8,025	7,544	6,101	5,591	6,918	6,370	6,049	5,854

TEN YEAR SUMMARY-GAAP CONSOLIDATED OPERATING RESULTS
(not covered by report of independent accountants)

(millions-except per share amounts)

	1997	1996
Direct premiums written:		
Personal lines	$ 4,355.9	$ 3,165.4
Commercial lines	469.3	473.0
Total direct premiums written	4,825.2	3,638.4

Reinsurance assumed	--	3.8
Reinsurance ceded	(160.1)	(200.5)
Net premiums written	4,665.1	3,441.7
Net change in unearned premiums reserve(1)	(475.6)	(242.4)
Premiums earned	4,189.5	3,199.3
Expenses:		
Losses and loss adjustment expenses(2)	2,967.5	2,236.1
Policy acquisition costs	607.8	482.6
Other underwriting expenses	336.0	208.5
Total underwriting expenses	3,911.3	2,927.2
Underwriting profit (loss) before taxes	278.2	272.1
Provision (benefit) for income taxes	97.4	95.2
Underwriting profit (loss) after taxes	180.8	176.9
Service operations profit (loss) after taxes	.9	2.8
	181.7	179.7
Investment income after taxes	205.3	175.6
Net realized gains (losses) on security sales after taxes	64.0	4.6
Interest expense after taxes	(42.0)	(40.0)
Proposition 103 reserve reduction after taxes	--	--
Non-recurring items after taxes	--	--
Other expenses after taxes(3)	(9.0)	(6.2)
Income before tax adjustments and cumulative effect of accounting change	400.0	313.7
Tax adjustments(4)	--	--
Cumulative effect of accounting change(5)	--	--
Net income	$ 400.0	$ 313.7
Per share(6)		
Net income(2)	$ 5.31	$ 4.14
Dividends	.240	.230
Average equivalent shares		
Basic	72.0	71.6
Diluted	75.3	74.2

(1) Amount represents change in unearned premiums reserve less change in prepaid reinsurance premiums.

(2) In 1994, the "supplemental reserve" was eliminated, resulting in a one-time decrease to losses and loss adjustment expenses of $71.0 million, or $.62 per share.

(3) Reflects investment expenses after taxes and other tax adjustments.

(4) 1991 reflects a deferred tax asset write-down and 1990 reflects a fresh start tax benefit.

(5) Reflects adoption of SFAS 109, "Accounting for Income Taxes."

(6) Presented on a diluted basis. In 1997, the Company adopted SFAS 128, "Earnings Per Share," and, as a result, restated prior periods per share amounts, if applicable. See Note 1-Reporting and Accounting Policies for further discussion.

All share and per share amounts were adjusted for the December 1992, 3 for 1 stock split.

1995	1994	1993	1992	1991	1990	1989	1988
$ 2,644.6	$ 2,181.7	$ 1,548.9	$ 1,214.6	$ 1,047.4	$ 876.0	$ 800.1	$ 817.0
424.3	463.4	417.5	422.2	489.4	482.8	487.0	521.0

3,068.9	2,645.1	1,966.4	1,636.8	1,536.8	1,358.8	1,287.1	1,338.0
.1	2.9	9.2	4.3	.1	.1	7.2	9.4
(156.2)	(190.8)	(156.4)	(189.9)	(212.3)	(162.6)	(134.0)	(72.4)
2,912.8	2,457.2	1,819.2	1,451.2	1,324.6	1,196.3	1,160.3	1,275.0
(185.6)	(266.1)	(150.5)	(25.1)	(37.7)	(5.1)	36.2	(59.6)
2,727.2	2,191.1	1,668.7	1,426.1	1,286.9	1,191.2	1,196.5	1,215.4
1,943.8	1,397.3	1,028.0	930.9	858.0	762.9	799.3	752.0
459.6	391.5	311.6	304.1	313.7	292.7	296.7	321.3
167.2	150.8	151.3	141.5	162.1	123.7	114.9	106.6
2,570.6	1,939.6	1,490.9	1,376.5	1,333.8	1,179.3	1,210.9	1,179.9
156.6	251.5	177.8	49.6	(46.9)	11.9	(14.4)	35.5
54.8	88.0	62.2	16.9	(15.9)	4.0	(2.9)	10.0
101.8	163.5	115.6	32.7	(31.0)	7.9	(11.5)	25.5
5.6	6.5	4.4	(2.8)	(1.4)	2.8	2.5	(1.3)
107.4	170.0	120.0	29.9	(32.4)	10.7	(9.0)	24.2
156.2	131.2	107.1	110.4	121.1	126.4	135.3	91.3
30.4	15.5	70.1	9.6	4.9	(8.4)	(.4)	12.3
(37.1)	(35.9)	(25.8)	(29.4)	(31.6)	(32.0)	(32.5)	(10.5)
--	--	--	70.0	--	--	--	--
--	--	(2.6)	(42.6)	--	--	--	--
(6.4)	(6.5)	(1.5)	(8.3)	(14.9)	(13.2)	(15.4)	(9.2)
250.5	274.3	267.3	139.6	47.1	83.5	78.0	108.1
--	--	--	--	(14.2)	9.9	--	--
--	--	--	14.2	--	--	--	--
$ 250.5	$ 274.3	$ 267.3	$ 153.8	$ 32.9	$ 93.4	$ 78.0	$ 108.1
$ 3.26	$ 3.59	$ 3.59	$ 2.08	$ .41	$ 1.20	$ .94	$ 1.23
.220	.210	.200	.191	.172	.160	.147	.133
71.8	71.6	69.3	60.7	65.4	72.3	79.5	84.0
74.2	74.0	71.8	70.9	66.6	81.9	88.8	90.9

DIRECTORS

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Director,
various corporations

B. Charles Ames(1)
Principal,
Clayton, Dubilier & Rice, Inc.
(investment banking)

Charles A. Davis(1)
Limited Partner,
Goldman Sachs Group L.P.
(investment banking)

Stephen R. Hardis(1),(2)
Chairman of the Board and Chief
Executive Officer,
Eaton Corporation
(manufacturing)

Janet Hill(3)
Vice President,
Alexander & Associates, Inc.
(management consulting) and
President,
Staubach Alexander Hill, LLC
(commercial real estate consulting)

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and Chief Executive Officer

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formerly President,
Federated Department Stores, Inc.
(retailing)

Donald B. Shackelford(3)
Chairman,
State Savings Bank
(savings bank)

Dr. Paul B. Sigler(3)
Professor, Yale University
and Investigator,
Howard Hughes Medical Institute
(medical research and education)

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Charles B. Chokel
Allan W. Ditchfield
W. Thomas Forrester
William H. Graves
Moira A. Lardakis
Daniel R. Lewis
Peter B. Lewis
Robert J. McMillan
Glenn M. Renwick
David M. Schneider
Tiona M. Thompson
Robert T. Williams

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COMMUNITY MANAGERS

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Jose R. Benitez
Charles C. Boucherle
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Timothy M. Madden
Eric W. Neely
Mark D. Niehaus
Brian J. Passell
Anthony P. Pavia, Jr.
Victor Politzi
David L. Pratt
Michael J. Randall

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the offices of The Progressive Corporation, 6671 Beta Drive, Mayfield Village, Ohio 44143 on April 24, 1998, at 10:00 a.m. There were 4,093 shareholders of record on December 31, 1997.

PRINCIPAL OFFICE

The principal office of The Progressive Corporation is at 6300 Wilson Mills Road, Mayfield Village, Ohio 44143
World Wide Web address: http://www.progressive.com

TOLL-FREE TELEPHONE NUMBERS

For assistance after an accident or to report a loss, 24 hours a day, 7 days a week, call: 1-800-274-4499

For Progressive's smart new way to shop for auto insurance, available 24 hours a day, 7 days a week, call: 1 800 AUTO PRO(R) (1-800-288-6776)

For 24 Hour Policy Service, call: 1-800-888-7764

COUNSEL

Baker & Hostetler, Cleveland, Ohio

TRANSFER AGENT AND REGISTRAR

If you have questions about a specific stock ownership account, write or call: Corporate Trust Customer Service, National City Bank, 1900 East Ninth Street, Cleveland, Ohio 44114. Phone: 1-800-622-6757

COMMON SHARES

The Progressive Corporation's Common Shares (symbol PGR) are traded on the New York Stock Exchange. Dividends are customarily paid on the last day of each quarter.

INTERIM REPORTING The Progressive Corporation no longer distributes quarterly shareholders' reports. To hear the text of the latest earnings release, receive key financial information for the past several quarters, receive dividend and other information, or request copies of public documents, shareholders can call 1-800-879-PROG. This toll-free shareholder services line is available 24 hours a day, 7 days a week. Such information is also available from the Company's inter-net site: http://www.progressive.com

INVESTOR RELATIONS

Any shareholder wishing to receive public financial information on

CORPORATE OFFICERS

Peter B. Lewis, Chairman,
President and
Chief Executive Officer

David M. Schneider, Secretary

Charles B. Chokel, Treasurer

(1) Audit Committee member

(2) Executive Committee member

(3) Executive Compensation Committee member

Chris C. Rebillot
Gerald A. Rett
Robert J. Rose
David L. Roush
John P. Sauerland
Michael D. Sieger
Brian A. Silva
David J. Skove
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Julia Clark Sweeney
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David W. Young
Scott W. Ziegler

the Company may write or call: The Progressive Corporation, Investor Relations, 6300 Wilson Mills Road, Box W33, Mayfield Village, Ohio 44143. Phone: 440-446-2851

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